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FMC AND MARAD AUTHORIZATIONS
FISCAL YEAR 1995

1021-B

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE
OF THE

COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

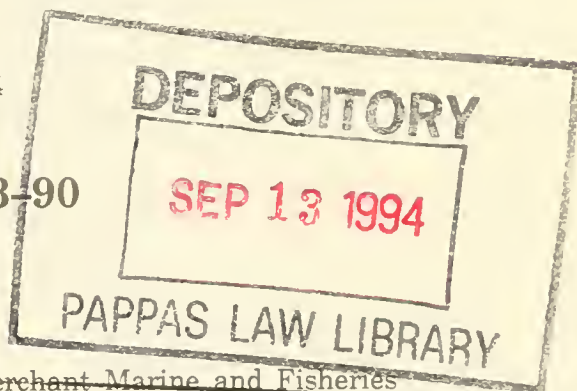
SECOND SESSION

ON

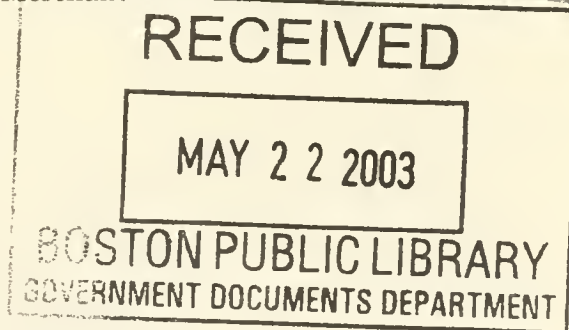
AUTHORIZING APPROPRIATIONS FOR THE FEDERAL
MARITIME COMMISSION AND THE MARITIME ADMIN-
ISTRATION FOR FISCAL YEAR 1995

MARCH 9, 1994

Serial No. 103-90



Printed for the use of the Committee on Merchant Marine and Fisheries



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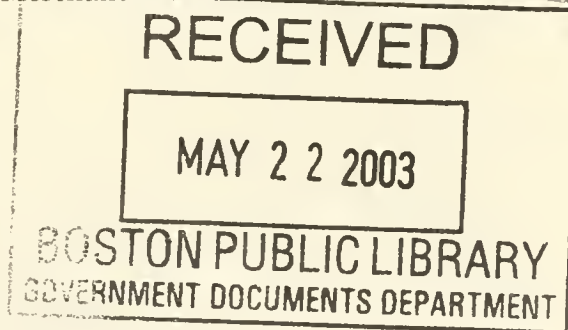
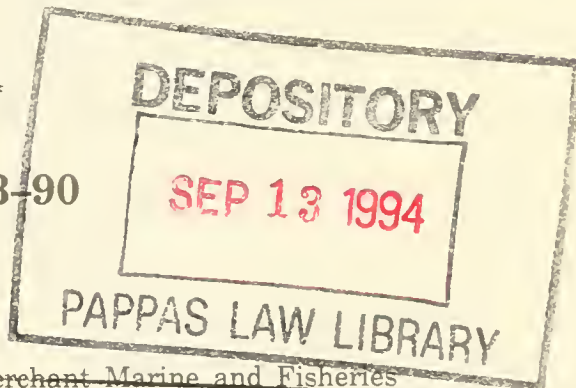
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FMC AND MARAD AUTHORIZATIONS FISCAL YEAR 1995

WEDNESDAY, MARCH 9, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in room 1334, Longworth House Office Building, Hon. Owen B. Pickett (Acting Chairman of the Subcommittee) presiding.

Present: Representatives Pickett, Taylor, Stupak, Manton, Ackerman, Fields, Bateman, Kingston, Bentley.

Staff Present: Subcommittee on Merchant Marine: Keith Lesnick, Staff Director; Randy Morris, Clerk; Fred Zeytoonjian, Counsel; Natalie Hidalgo, Professional Staff; David Honness, Professional Staff; Hugh N. Johnston, Minority Counsel. Committee on Merchant Marine and Fisheries: John Cullather, Professional Staff; Carl W. Bentzel, Counsel; Sue Waldron, Press Assistant; Harry F. Burroughs, Minority Staff Director; Cynthia M. Wilkinson, Minority Chief Counsel; Kip Robinson, Minority Counsel; Margherita Woods, Staff Assistant.

STATEMENT OF HON. OWEN B. PICKETT, A U.S. REPRESENTATIVE FROM VIRGINIA, AND RANKING MAJORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE

Mr. PICKETT. Good morning, ladies and gentlemen. I am filling in for our Chairman, Mr. Lipinski, this morning who is planning to be here a little later on for the meeting. I have the pleasure of welcoming our distinguished group of panelists who will testify today on the annual authorizations for two important Federal agencies, the Federal Maritime Commission and the Maritime Administration. Both of these agencies have worked hard to preserve a strong and viable U.S. Merchant Marine.

Although there are still issues to be resolved, we were encouraged to see that President Clinton's budget request for the Maritime Administration includes funding for a Maritime Security Program. The Subcommittee will next week and again at a later date to discuss the Administration's proposal and funding for the program. We eagerly await the President's bill and look forward to working together to forge a bright future for the United States maritime industry.

Today, we will begin with Chairman Hathaway to discuss funding for the Federal Maritime Commission. Chairman Hathaway, welcome. Your written statement will be made a part of the record

so you can feel free just to summarize what you have submitted for the record. We would be very pleased to hear from you now.

**STATEMENT OF THE HONORABLE WILLIAM D. HATHAWAY,
CHAIRMAN, FEDERAL MARITIME COMMISSION**

Mr. HATHAWAY. Thank you very much, Mr. Chairman, and Members of the Subcommittee. Accompanying me this morning is Commissioner Ming Hsu. Unfortunately, Mr. Ivancie, the other commissioner on board, was not able to make it. And seated with me at the table are Managing Director Ed Walsh on my left and our General Counsel, Bob Bourgoin, on my right.

I thank you very much, Mr. Chairman. I shall just summarize the statement. I hope the statement will be made a part of the record. Our budget for fiscal year 1995, as recommended by the President, is \$18,700,000. This is \$200,000 less than what we received as an appropriation for fiscal year 1994, so it is going to be extremely difficult, I think, for us to get by and to carry out the programs that are expected of us under the legislation within our jurisdiction.

As the Chairman and Members of the Committee know, we have strictly an operating budget. We don't have any grants to make or R & D. Ours is strictly an operating budget, and so any cutback affects us much more than it would if we had some R & D money that we could cut back on, or grants that we could cut back on.

With this budget, we will have no promotions, no awards; and as for furniture and purchases for ADP equipment, we will have to freeze those—have none whatsoever; and we will also have to cut back considerably on our travel and our training.

Let me just go over some of the high points of what we do with the money that we get. Our foreign operations program, which we have been carrying on principally under Section 19 of the 1920 Act, has been extremely successful. In the recent past, we have had actions against Japan, Taiwan, the People's Republic of China, and Korea, and today I can say that all of those have been successfully resolved, that is, to the satisfaction of the carriers who brought these violations to our attention. And I would be glad to supply for the record, Mr. Chairman, the details of each and every one of those actions that we had taken against each of those countries.

Mr. PICKETT. I think that would be very helpful, and the Committee would appreciate that. Thank you.

Mr. HATHAWAY. Our ATFI program, the Automated Tariff Filing and Information System, is well off the ground. By the final filing date at the end of the year about 3,000 tariffs had been filed. We anticipate that maybe there will be another 300 or 400 coming in. We have sent out some show-cause orders to carriers which have not filed in ATFI, one of which indicated that several of the non-filing carriers and non-vessel-operating common carriers were no longer in business. We have others pending which, if they aren't answered satisfactorily within 45 days, will result in tariff suspensions. We suspect that, within the 45-day period, the named carriers will file their tariffs, and so we will have all the tariffs on file that are existent at the present time.

Under the direction of Mrs. Hsu, a fact-finding investigation was carried on this past year in which the complaints by NVOCCs and

shippers' associations that they were not given fair treatment by carriers and conferences with respect to granting them service contracts were examined in great detail. The hearings were held in four different cities throughout the United States.

The final report indicated that there was no need for the Commission to take immediate action. However, the Commission did decide that eight carriers and conferences would have to respond under Section 15 to various questions with respect to how many service contracts were negotiated, how many "me-too" requests they had, how many were denied, how many were granted, and what the reasons were for their denial, among other questions. There were three reporting dates, one of which has expired. The next one is next July and the other one next January.

We are carrying on what we consider to be the best enforcement programs that we can carry on within the budgetary limits that we have. As the Chairman and the Members of the Committee know, we have had an extensive enforcement efforts in both the Atlantic trades and the Pacific trades in the recent past, gaining for the United States Treasury in excess of \$50 million. Now that those efforts are substantially completed, we can't expect that we are going to collect as much in the way of fines either there, or as we proceed with enforcement efforts in the Mediterranean, the Caribbean, and South America. However, we shall be just as active as we have been before in trying to catch offenders in those trades.

As you know, all agreements are submitted to the Federal Maritime Commission, and the one agreement in particular is which has been the subject of a great deal of controversy in the recent past is the Trans-Atlantic Agreement. We monitor that agreement on an almost daily basis to make sure that the Trans-Atlantic Agreement is not violating Section 6(g) of the Act. So far, we have not received sufficient evidence to go to Court to request an injunction against the Trans-Atlantic Agreement.

As the Chairman and Members of the Committee know, the European Commission is actively engaged with the TAA at the present time. They held hearings on the matter last year but did not grant an injunction. Now, they have submitted another statement of objections which the TAA has not as yet answered but will answer very shortly. Then, I believe, that it will go to a hearing, and at sometime, either at the beginning of the summer or late next fall, the EC will make a decision. In the meantime, the EC is carrying on negotiations with the TAA to see if it can't come up with some compromise.

We have sent out notices of proposed rulemaking with respect to regulations on Section 6(g) and on co-loading, and later this month we are going to have meetings with respect to a TAA case brought by Danish shippers and also the revisions in our rate-of-return system that we employ for determining the reasonableness of rates-of-return for domestic offshore carriers.

With that, Mr. Chairman, I would be happy to answer whatever questions you or the Subcommittee may have.

[Statement of Mr. Hathaway may be found at end of hearing.]

Mr. PICKETT. Does either Mr. Bourgoin or Mr. Walsh wish to make a statement?

Mr. BOURGOIN. No, sir.

Mr. PICKETT. All right. We will begin our Committee questioning this morning with Mr. Taylor, and then he will be followed by Mr. Kingston. Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman. And I want to open this up to the panel. I have had a couple of years now to watch the work of the Maritime Administration, and I continue to be concerned that we seem to be spending more and more of our resources on fewer and fewer ships with an emphasis on 4,000 merchant mariner jobs and a complete lack of emphasis on 120,000 shipbuilding jobs. I think this was particularly brought to light in a measure that came before the Congress last year where we just tried to do something as simple as mandate that if we are going to subsidize the operation of vessels, at least we want those vessels built here.

I continue to be frustrated by the lack of aggressiveness on the part of the Maritime Administration with regard to Title XI. As you know, Congressman Pickett, Congressman Bateman, and several of us worked to get some money out of the defense budget for the shipbuilding initiative last year, and I was wondering what the Maritime Administration has done to follow up on that. I will open it up to the panel.

I want to start by saying that we have been told repeatedly that the Maritime Administration is offering loan guarantees at a much lower rate than Congress authorized and has offered loan timetables on a much shorter frame than Congress has authorized, both of which have made the marketing of this program very difficult.

Mr. HATHAWAY. Congressman, let me say this, I am the Chairman of the Federal Maritime Commission. The Administrator of the Maritime Administration will testify after I am finished, and he is in a much better position to answer your question than I am. I am sympathetic to the views that you have on the maritime program that the Government is trying to enact to return the operating-differential subsidy for the American-flag carriers so that we can keep them under the U.S. flag. I think they are necessary for the furtherance of the '84 Act, but I am sure that Admiral Herberger can answer your questions much better than I can.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. PICKETT. Anything else, Mr. Taylor?

Mr. TAYLOR. No. That will be it.

Mr. PICKETT. All right. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman. First of all, I want to thank the work that you are doing to work within the budget constraints, and we certainly appreciate your sensitivity because everybody is under the gun these days.

One of the questions that I have deals with H.R. 56 introduced by Helen Bentley. I believe you are familiar with that?

Mr. HATHAWAY. Yes, I am.

Mr. KINGSTON. Has FMC developed a position on this?

Mr. HATHAWAY. Yes. We support the Bentley bill.

Mr. KINGSTON. Are you aware of any opposition to it?

Mr. HATHAWAY. No, we are not aware of any opposition to it, Congressman.

Mr. KINGSTON. So if it is incorporated in your legislation, you don't have a problem with it?

Mr. HATHAWAY. No, no problem whatsoever. We would welcome it.

Mr. KINGSTON. OK. This is kind of a longer one, but what is the FMC's position on the issue concerning the authority of the Maritime Administration to prohibit foreign-owned companies from transporting U.S. Government cargoes on U.S.-flag vessels chartered from American companies?

Mr. HATHAWAY. Well, Congressman, I don't think that we are in a position to make any statement in that regard at the present time. There is a case pending before one of our Administrative Law Judges with respect to that matter. As you know, we did issue a decision last year, indicating that our agency did not have the power to do anything in this regard, and we said that the Department of Justice should issue an opinion, which the Department of Justice did, and it said that MARAD was wrong in exacting that condition.

Sea-Land has now appealed that ruling, and that matter is pending before the Circuit Court. What will happen to that, I don't know. It may finally get back to the Commission if Sea-Land pursues the action before our Administrative Law Judge. But as I say, it would be, I think, improper for me to comment on the case at this time.

Mr. KINGSTON. I understand. I guess the next question is has the FMC been involved with any informal discussions between shippers and carriers on matters related to the Shipping Act of 1984?

Mr. HATHAWAY. Yes, Congressman. We are continuously involved with discussions with both shippers and carriers, but not together. The SCOT group has been in to see us. We periodically see members of the NIT League or we attend some of their functions to answer questions for them. Carriers are in to see us off and on throughout the year, and we attempt to answer their questions and their complaints as well as we can, but we have not offered ourselves as a referee, so to speak, in their disputes.

Mr. KINGSTON. OK. Mr. Hathaway, I certainly appreciate your responses. Thank you.

Mr. HATHAWAY. Thank you, Congressman.

Mr. PICKETT. Mr. Hathaway, you have mentioned the Automated Tariff Filing System, and I notice your budget for that activity has not been fully funded. I wonder if you would comment about what the impact of reduced funding for the Automated Tariff Filing is going to have and how this program is working? As I recall, we are supposed to be getting the people that access the system pay so much for each time they access it. Am I correct on that?

Mr. HATHAWAY. That is correct.

Mr. PICKETT. And I would like to know how that is working as far as the amount of money being collected, whether it is more or less than what you anticipated?

Mr. HATHAWAY. Mr. Chairman, it is considerably less than what was anticipated by Congress. Our projections are that during the three-year period we will be lucky to collect \$200,000. And I believe that it was anticipated that several hundred million dollars would be collected. Now, what the basis for that estimate was, I am not privy to. But as a matter of fact, I think we have collected about \$25,000 to \$30,000 so far this fiscal year.

And with respect to your initial question, Mr. Chairman, I believe that the recommendation of the President fully funds our ATFI program in fiscal year 1995. With respect to the new contract for ATFI, which is separate from the Davis bill collections you alluded to, we hope our request is going to be sufficient. I think the budget request allows for \$1.1 million for the ATFI program. Of course, if the lowest bid for a new contract comes in at \$1.5 million, we are in trouble. But we estimate that it will come in within the requested funding level. But that is a separation question from the Davis Act question.

Mr. PICKETT. I guess the concern here is whether or not you are going to be able to move forward and implement fully the Automated Tariff Filing and operate it the way it was intended to be operated so the services will indeed be there for the people trying to access it.

Mr. HATHAWAY. Yes. They will be.

Mr. PICKETT. The GSA, I believe, required the Commission relocate its offices. You were having a curtailment in the investigative manpower of your organization, and you have got two new Commissioners coming in. How is all of this going to be handled when your administrative budget is being cut fairly significantly?

Mr. HATHAWAY. Well, the budget request allows for the two new Commissioners coming in, and, there are no move-related costs in fiscal year 1995. But, as far as enforcement is concerned, I think it is going to be difficult, and I hope that it doesn't drop below the point where the world that we regulate becomes less afraid of us.

As long as they know that we have the resources to go after them, I think we can keep them in line. But if the resources are dropped down too low, then I am afraid there may be more violations. I think we are right at the brink. In other words, I think we do have enough in the budget request to maintain our enforcement efforts right now, but if we are cut any more than that, we are going to be in real trouble.

Mr. PICKETT. There has been an ongoing discussion about the way in which the carrier conferences interact with the shippers' associations and whether one is going to preempt the other. Which is the most effective? Are they operating in conformity with applicable law? Are there problems that we should know about as far as their activities are concerned? Would you please address this general issue for the Committee?

Mr. HATHAWAY. As I mentioned in my summary, Commissioner Hsu did hold hearings with respect to the matter of how the shippers' associations, as well as the NVOCCs, were dealing with service contracts with the conferences. We are now monitoring through various carriers and conferences to determine exactly what they do, how many requests they have for service contracts, how many "me-too" arrangements have been entered into, what were the reasons for denying any "me-too" arrangements, etc.

Mr. PICKETT. Tell us a little bit, if you would, about the co-loading issue?

Mr. HATHAWAY. The co-loading issue is one that, again, I can't comment or give any opinion on at this time. The closing date for comments on the proposed rule is the 11th of this month, two days from now, after which time we will sit down and go over all of the

comments. I anticipate that it will take at least a couple of months just to analyze all the comments, because we have received a host of them.

Many are unduly apprehensive from the comments that I have seen so far. Some think we are on some mission that we didn't intend by the proposed regulations that we issued. What we are trying to do is to straighten out some ambiguities in the regulations that are now on the books.

Mr. PICKETT. One of the outstanding items was the issue of the status of the European Commission's ruling on the Trans-Atlantic Agreement's block antitrust exemption. Can you tell us a little bit about where this is and what the impact may be on U.S. ocean shipping?

Mr. HATHAWAY. Well, at the present time, the TAA is about to file its answer to the list of objections that the European Commission has launched against the TAA, and then probably it will go to a hearing, and then the EC will make a decision. But in the meantime, the EC is negotiating with the TAA to see if it can't come up with some compromise agreement that it can issue its decision on.

If there is no compromise that is satisfactory to the TAA, and the EC proceeds to a decision, what we are apprehensive about is that the EC might limit the number of carriers who can participate in the TAA, and that would be in direct contradiction of our law, because our law says that there is no limitation to the number of carriers who can join a conference. That would be the principal difficulty that we would run into with the TAA.

I have talked with Mr. Van Miert, who is the head of DG-4, the antitrust division of the EC, and alerted him to this possibility, and he has agreed with me that he would get in touch with me ahead of time if that were going to be their decision—if it would interfere with our law either in that respect or in any other respect—so that hopefully we could work out something.

But down the line, Mr. Chairman, this is going to occur again. I think we are going to have some collisions with the EC, and I think it is incumbent upon both the Commission and this Committee to sit down sometime and think out how we are going to accommodate these differences between the two laws that the carriers operate under.

Mr. PICKETT. The cruise ships seem to come into prominence every so often in the deliberations of this Committee, and there is always concern about whether or not our American passengers are being properly protected, whether or not these operators are posting adequate bonds for performance and whether or not other measures, like safety factors are appropriately taken into account to protect American citizens. Could you comment on that?

Mr. HATHAWAY. Yes. Of course, safety measures are under the jurisdiction of the Coast Guard, Mr. Chairman, but the unearned passenger revenues with which everybody is concerned—that is, if the customers pay the fare and for some reason the ship doesn't sail, are they going to get their money back—is within our jurisdiction, and we have monitored this very closely over the years.

Fortunately, we haven't had one failure which exceeded required coverage as yet. However, we had one close call last year. Our cov-

erage requirement has gone over the years from \$5 million to \$10 million, and now it is \$15 million, and we are looking at it again because some of the unearned passenger revenue is many times the \$15 million. We are going to be coming out in the very near future with proposed regulations to take care of the unearned passenger revenues that are in excess of what the present coverage requirement is.

Mr. PICKETT. I spoke earlier about my concern about the Commission having adequate resources to properly fund the Automated Tariff Filing and Information System, and you indicated that you felt that perhaps it did. You also indicated that the enforcement level was right at the edge. If it was cut any more, you felt perhaps the Commission could not carry out its responsibilities. Would you tell the Committee just for our record here what it would require to fully fund the full-time equivalent level of the 208 positions and to meet other critical requirements of the Commission?

Mr. HATHAWAY. Mr. Chairman, I think it would be approximately \$400,000 more than what we have in the budget request now. In other words, we should go to a little over \$19 million. Right now it is \$18.7 million. And, if the Chairman would indulge me, I would like to supply the details of that \$400,000 for the record. I know \$200,000 of it would be just for salaries alone, but the other details I don't have right in front of me, and I would like to be able to supply that for the record.

Mr. PICKETT. We would appreciate that, and also if it develops that you have any more current information about the funding for the Automatic Tariff Filing and Information System, we would like to have that also.

Mr. HATHAWAY. As I indicated earlier, ATFI is fully funded for fiscal year 1995.

Mr. PICKETT. We have been joined by Mr. Ackerman. I don't know. Mr. Ackerman, do you wish to question this witness?

Mr. ACKERMAN. No questions at this time, Mr. Chairman.

Mr. PICKETT. Mr. Taylor, do you have further questions?

Mr. TAYLOR. No.

Mr. PICKETT. Mr. Hathaway, we want to thank you and your associates for being here this morning. Your testimony has been very helpful, and we look forward to working with you to solve the problems of your Commission.

Mr. HATHAWAY. Thank you very much, Mr. Chairman.

Mr. PICKETT. Good morning, gentlemen. I want to welcome representatives from the Maritime Administration and the U.S. Department of Transportation; Mr. Herberger, the Administrator of the Maritime Administration, and General Fogleman, Commander in Chief of the U.S. Transportation Command. As I mentioned earlier, your written statements will be made a part of the record in their entirety, and you may proceed in the order in which you wish to summarize for us the high points of the presentation you wish to make today.

STATEMENT OF THE HONORABLE ALBERT J. HERBERGER, ADMINISTRATOR, THE MARITIME ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION

Admiral HERBERGER. Thank you, Mr. Chairman, and Members of the Subcommittee. I welcome the opportunity to be with you today to discuss the Maritime Administration's budget authorization request for Fiscal Year 1995.

Our request recognizes the economic and military value of having a fleet of privately owned commercial vessels owned by American citizens, crewed by American civilian seafarers, and operated in compliance with American safety and environmental standards. It also recognizes the importance of the American shipbuilding industry and furthers the objectives of the President's program to strengthen that industry through the Title XI loan guarantee program.

American merchant ships and American seafarers have always come through for us in time of crisis, during World War II, the Korean conflict, Vietnam, and, most recently, serving with honor in support of the Combined Forces in the Persian Gulf.

With the end of the Cold War, we are shifting from a forward deployment posture with large forces stationed overseas, to a power-projection from the United States status. Timely sealift is essential to that strategic concept. The American merchant fleet is an important source of sealift for the armed forces.

From an economic perspective, thanks to the American-flag carriers, there has been a dramatic improvement in ocean transportation in recent years. They have developed the technology that led to containerization, double-stack rail cars, specialized containers, electronic equipment identification, and satellite tracking that have formed the basis of our nation's expanding intermodal transportation system.

As a result, the intermodal transportation that had been pioneered by the U.S.-flag carriers has benefited U.S. manufacturers and the rest of our industrial and agricultural sectors. They benefit from a seamless transportation system which means less need for warehouse space, high inventory capability, and lower chances of costly delays. The American public, as consumers of imports and producers of exports, are the prime beneficiaries of an efficient intermodal system.

Important to our efforts to ensure that we will continue to maintain an American merchant marine is our request for a new Maritime Security Program (MSP) to be funded at \$1 billion over the next 10 years. The new program will foster a modern competitive American merchant marine at a substantially lower cost than the operating-differential subsidy program of today.

Mr. Chairman and Members of the Subcommittee, I am pleased to report to you that the Administration has completed its drafting of legislation to implement the MSP and to authorize funding for the other activities of the Maritime Administration. We expect to transmit our proposed bill to you tomorrow. Next week, Secretary Peña and I will be before your Committee to present the Administration's Maritime Security Program. We will be available to answer specific questions for you after you have had the opportunity to review the details of the legislation.

I will now briefly outline the Administration's budget request. Operating-differential subsidies: For the current operating-differential subsidy (ODS) program, the Administration is requesting \$214,356,000. In Fiscal Year 1995, we expect to pay ODS contract obligations for 28 liner vessels and 24 bulk ships. By 1987, most of the contracts that MARAD has with U.S.-flag carriers will expire.

Operations and training: An authorization of \$77 million is requested for operations and training. This request is similar to the annual authorization request of operations and training over the last several years. The one significant difference in this year's request is that there is an additional \$1.9 million for research and development which MARAD has requested for further research into advancements in intermodal transportation and industry competitiveness.

The Ready Reserve Force: An authorization of \$250 million is requested for this account. This request includes \$246 million for maintenance and operations and \$4 million for facilities. No funds are requested for acquisitions.

Mr. Chairman, as you will recall, the bill you introduced last year to authorize funding for the Maritime Administration deleted funding for acquisitions and increased funding for maintenance of the RRF. The Administration's proposal for Fiscal Year 1995 likewise increases funding for RRF maintenance, and we have not requested new acquisition funding for 1995. There is \$118 million in Fiscal Year 1994 funds available for acquisitions for the RRF. We also expect a \$43 million transfer of funds from the Department of Defense for RRF acquisition. The combined funding of \$161 million will be used to purchase roll-on/roll-off vessels in Fiscal Year 1995. The \$246 million will maintain the RRF with test activations, scheduled maintenance and repairs in U.S. shipyards.

The maintenance and operation account will also provide crews for RRF ships that are outported in a four-day readiness status, and at a minimum, two-person retention crews for other ships assigned the five-day readiness status. In addition, a key ingredient for timely manning is the enactment of reemployment rights, which I commend the House Members for passing last year.

Maritime Guaranteed Loan (Title XI) Program: Within the Administration's budget request for Fiscal Year 1995 is \$50 million for Title XI loan guarantees. Combined with \$94 million in Title XI funds available in Fiscal Year 1994, a total of \$144 million in Title XI funds will permit loan guarantees of approximately \$1.5 billion to strengthen American shipyards. This request supports the President's shipbuilding initiative and legislation enacted last year which extends the Title XI program to cover vessels built for export and some shipyard modernization.

Mr. Chairman, in summary, the Maritime Administration's fiscal year 1995 budget authorization reflects the President's commitment to maintaining the status of the United States as a maritime nation. This concludes my statement, and I will be pleased to answer any questions you may have. I look forward to returning next week to discuss in more detail our Maritime Security Program.

[Statement of Admiral Herberger may be found at end of hearing.]

Mr. PICKETT. Thank you, Mr. Herberger. We will now hear from General Fogleman, and, General, your complete statement is a part of the record so you can summarize the high points of your statement.

STATEMENT OF GENERAL RONALD R. FOGLEMAN, COMMANDER IN CHIEF, U.S. TRANSPORTATION COMMAND, U.S. DEPARTMENT OF DEFENSE

General FOGLEMAN. Thank you, Mr. Chairman, Members of the Committee. I am honored to represent the men and women of the United States Transportation Command and our components, the Military Sealift Command, the Military Traffic Management Command, and the Air Mobility Command. Our mission is to provide this nation the strategic transportation capability in peace and in war. Along with our partners in the Department of Transportation and the commercial transportation industry, we operate and maintain what is known as America's Defense Transportation System.

The responsiveness and the flexibility of this system was demonstrated last October when fighting erupted in Mogadishu. Our surface forces started moving equipment to airports and seaports here in the United States where our air mobility team moved personnel and heavy equipment, including M-1 tanks, from bases in New York and Georgia direct to Mogadishu. Using four separate aerial refuelings, our huge C-5 cargo aircraft flew nonstop to Somalia in less than 18 hours. At the same time, in addition to these airlift missions, a fast sealift ship was loaded and started on its way to Somalia carrying 200 C-5 loads of equipment, and it made the voyage in 12 days.

Our support of U.S. and U.N. forces in Somalia gained a lot of attention in the media. However, it represented only a small portion of the Defense Transportation System activities in 1993. We have been supporting the United Nations Protection Force in the former Yugoslavia. We have been supporting Kurds in northern Iraq under Operation Provide Comfort. We have continued to provide humanitarian lifts to the former Soviet Union. We have supported United Nations Peacekeeping forces in Cambodia, countered drug missions in Latin America, the Joint Chiefs of Staff exercises in Korea, Thailand, and Egypt.

Truly, USTRANSCOM has touched every corner of the globe during the past year. And while there is no such thing as a typical day, I would tell you that on most weeks, we are involved in nearly 1,000 air mobility missions. We have got 75 ships underway, and we are operating in 27 or so seaports.

Now, as in these smaller operations, our joint exercises, and our daily activities, the success of a large-scale deployment depends upon our ability to orchestrate all the elements within this complex system. A large-scale deployment such as that that we did during the Gulf War can be divided basically into four major elements: The movement of men and equipment from the forts and the camps to the ports, whether they are seaports or airports; the port-to port movement which was done by airlift and sealift; and then the port-to-the-foxhole movement which is done by the theater commanders.

The first stage of any operation is the movement of people, equipment, and supplies to these air and seaports of embarkation. Airlift

will then deliver the first units to the ports of debarkation in the theater. In many scenarios, the only forces that will arrive during the first week will be those delivered by airlift. In the smaller, rapidly unfolding contingencies, air mobility will provide the bulk of our response of forces. However, in larger contingencies up to 95 percent of all tonnage will come from the sea.

The sealift operation can further be divided into three phases: We have our afloat prepositioning, our surge shipping, and our sustainment. During the Gulf War, the first heavy forces such as tanks and artillery arrived on our prepositioned ships. Those are privately owned U.S.-flag ships under charter to DOD.

The second phase, surge shipping, must be immediately available to deploy unit equipment. Therefore, we rely on our fast sealift ships, our Ready Reserve Force ships, and U.S.-flag ships under charter to the Military Sealift Command.

The third phase, the sustainment, begins early in a deployment timetable, and it is what delivers the beans and bombs, if you will, to the deployed forces. During the Gulf War, the U.S.-flag liner industry played a key role in this sustainment lift.

This dependence on the commercial sector is a common theme throughout these air, land, and sealift modes of transportation. During the Gulf War, virtually all of our surface movements within the United States were conducted by the commercial sector. In the airlift mode, the commercial sector provided 90 percent of our passenger lift and 30 percent of our cargo tonnage. For sealift, the U.S. commercial fleet carried 29 percent of all sealift dry cargo. This is an element of the Defense Transportation System that will not change. Using America's commercial lift capability, air, land, and sea, to the maximum extent possible will continue to be a cornerstone of our command philosophy.

This partnership between America's maritime industry and USTRANSCOM is a true two-way street. We look to the commercial sector to help us meet the requirements of our customers, America's combatant commanders. At the same time, we are the U.S.-flag merchant marine's single largest customer. This year, USTRANSCOM will pay approximately \$1 billion to the U.S. maritime industry to provide intermodal and specialized transportation services to DOD.

We are also a major customer of America's shipbuilding industry. Between 1993 and 1999, the National Defense Sealift Fund will provide \$5.8 billion to the U.S. shipbuilding industry for construction and conversion of our strategic sealift ships. As partners with the maritime industry, we are sensitive to the competitive challenges faced by America's commercial carriers. This is why we fully support the existing cargo preference status. This policy costs us in the short-term, but in the long-term we believe it benefits both parties.

We also work hard to ensure that our chartered fleet is the proper size to avoid competition with the commercial sector. We continually monitor and adjust our charter fleet size according to market conditions and customer requirements. In the past 10 years, we have reduced the size of our charter fleet more than 50 percent, from 24 to 9 ships.

Aside from our dependence on the commercial sector for sealift capacity, we also rely upon them to provide a pool of skilled mariners to crew our fast sealift ships and our Ready Reserve Force ships. As you know, this pool of skilled U.S.-citizen mariners has been declining steadily since the Vietnam era. While the current trends in the U.S. maritime industry make this a difficult problem to solve, some sort of a program to ensure access to merchant mariners ashore would provide hope for future improvement.

Another area of concern is the readiness of our Ready Reserve Force. Because a majority of these ships were activated during the Gulf War, the RRF today is in a relatively high state of readiness. To ensure that fiscal pressures do not degrade this readiness, we are currently examining numerous options along with MARAD to improve readiness programs. The study of readiness options is just one part of the mobility requirement study revisit as a result of the Department of Defense's bottom-up review. We are examining all aspects of the RRF including the numbers and types of ships in the overall readiness posture.

Finally, I would make mention to the Maritime Security Program which is to be proposed in the near future. I would tell you that my principal interest with this initiative is that it enhances national security. From my perspective as USTRANSCOM, this means that it should provide us the necessary access to militarily useful ships and that the program supports the health and viability of the U.S. maritime fleet.

In summary, America clearly needs a strong maritime industry to ensure our global commitments can be met in the most efficient manner. The commercial maritime industry has and will continue to play a major role in the Defense Transportation System, a government industry partnership for national security. The executive and legislative branches of our Federal Government, working together with all elements of the maritime industry, I fully believe can and must provide an atmosphere that will foster new growth and vitality in America's merchant marine. And I thank you, Mr. Chairman.

[Statement of General Fogleman may be found at end of hearing.]

Mr. PICKETT. Thank you, General Fogleman. We have been joined by senior minority Member of the Committee, Mr. Bateman. Do you wish to make a statement?

Mr. BATEMAN. Mr. Chairman, I have a statement I will submit for the record.

[The statement follows:]

STATEMENT OF HON. HERBERT H. BATEMAN, A U.S. REPRESENTATIVE FROM VIRGINIA, AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE

I also wish to welcome our Administration witnesses to this hearing today—the Chairman of the FMC and former Senator Bill Hathaway and the Administrator of the Maritime Administration, Admiral Al Herberger and, of course, General Ron Fogleman, Commander in Chief of the Transportation Command.

With respect to your testimony Chairman Hathaway, I am very much in sympathy with your position and I am very much concerned over the cuts you are taking—albeit small in terms of our overall budget. Unfortunately, I cannot hold out much hope that your problems will be solved. From the reports I receive, however, if anyone can wring efficiency and value from a shrinking budget, it is you.

With respect to the Maritime Administration, I want to compliment Admiral Herberger for obtaining support within the Administration for a maritime revitalization program. While I look forward to seeing the details tomorrow, I am concerned that we do not, at this time, have a shipbuilding component in the Administration's version.

I hope we, in the Congress, can work with you to correct that oversight. I very much believe that with some creative ideas, we can satisfy the concerns of the liner operators as well as the shipyards.

As a former Navy admiral, you perhaps more than most, realize the importance of maintaining our shipbuilding capabilities.

On the Title XI issue, I must say that I am disappointed that the new regulations have yet to be issued. I was under the impression that we imposed by statute a February 28, 1994, deadline for publication. My question, Admiral, which I hope you will address, is, where are they? And will they comply with the statutory requirements imposed in the FY '94 DOD authorization?

Mr. Chairman, I will have to leave early, but I would ask permission to submit additional questions for the record.

Thank you.

Mr. PICKETT. All right. Mr. Ackerman, I believe you had a statement you wanted to enter for the record?

Mr. ACKERMAN. I do have a statement, Mr. Chairman, I would like to present if that would be appropriate?

Mr. PICKETT. Yes. Go right ahead.

STATEMENT OF HON. GARY L. ACKERMAN, A U.S. REPRESENTATIVE FROM NEW YORK

Mr. ACKERMAN. Thank you. I would like to first welcome the admiral and the general. I am very pleased to be here as we consider the Administration's budget request for the Federal Maritime Commission and the Maritime Administration for Fiscal Year 1995. I look forward to hearing their views and opinions, and to benefit from their knowledge today. I am especially pleased that we have the opportunity in a later panel to hear from Mr. Fred S. Sherman who is President of Project ACTA, and he is here representing the United States Merchant Marine Academy.

Mr. Chairman, as we know, a chief function of the Maritime Administration is to provide support for our nation's maritime training academies. This Committee has fought for many years to maintain adequate funding for these institutions, and for this reason, I am particularly concerned about a specific provision included in the Administration's budget proposal for 1995.

First, I am pleased to see that the President's budget has recommended an increase in funding for the Merchant Marine Academy during '95, but I am very disappointed that the proposal offers a cut in funding for the Merchant Marine Academy for 1996 and beyond and suggests to making up for the cut by phasing in tuition fees at the academy. Almost all of the Members of this Committee have expressed their belief that the Merchant Marine Academy should remain tuition-free. And last year, this Committee overwhelmingly supported an amendment that I offered to the National Performance Review to keep the Merchant Marine Academy tuition-free.

In addition, the Members of the Committee have also lent strong support to H.R. 3293, a bill that I have introduced to prohibit the introduction of tuition fees at any of our national service academies. And I ask the Members of the Committee as well as our witnesses before us today to consider the very dangerous precedent

that the Administration's position could set in relation to the funding of other Federal service academies.

The Merchant Marine Academy is a Federal service academy which has always meant that the Federal Government assumes tuition costs in return for a commitment to serve the United States. And that commitment in this case includes earning a four-year college degree, a five-year pledge to work as officers on U.S.-flag vessels or in a maritime-related industry, or as commissioned officers in the U.S. Armed Forces, a guarantee that they will maintain their ship officer's license for six years and an eight-year obligation to the United States Naval Reserve.

To impose tuition costs on the students of the Merchant Marine Academy or any other Federal service academy would likely cause a drastic decrease in enrollment and quality of enrollees and in the number of students willing to dedicate themselves in the service of our country. I want to thank you, Mr. Chairman, for taking the time to evaluate this and other important issues, and I look forward to working with you and the other Members of the Committee as well as our witnesses and the Administration as we seek to enhance our nation's maritime capabilities.

Mr. PICKETT. OK. Thank you. Does any other Member wish to—yes—Mr. Manton.

**STATEMENT OF HON. THOMAS J. MANTON, A U.S.
REPRESENTATIVE FROM NEW YORK**

Mr. MANTON. I thank the Chairman. I don't have a written statement, but I want to associate myself with Mr. Ackerman's remarks with regard to the Merchant Marine Academy, specifically, and generally, all of the service academies. I have been a member of the Board of Visitors for the Merchant Marine Academy for the last several Congresses and have had ample opportunity to visit and develop an appreciation for the academy and its programs and goals.

I salute Mr. Sherman, who will testify later on behalf of Project ACTA, which is not officially affiliated with the academy but, rather, is made up of alumni and other people who think very highly of the academy and will work to see to it that the standards are maintained, the funding is maintained, and, in particular, that tuition will not be imposed. The word in their title "ACTA" comes from the academy's motto, Acta Non Verba, which means Actions Not Words. I think the academy and its graduates have shown a willingness to serve their country, to do their obligatory reserve time or whatever is required by way of their commitment.

I think the idea of tuition for this Federal academy or any other flies in the face of a long history in this country of recruiting students, oftentimes of modest means, from all parts of the country. I think it represents a very poor precedent, a very poor idea, and I support Mr. Ackerman and his legislation of which I am a co-sponsor along with many others on this Committee and in the Congress. So, with that, I will yield back the balance of my time. Thank you, Mr. Chairman.

Mr. PICKETT. The written statements of all Members, without objection, will be entered in the record. Does anyone else wish to make an opening statement? Yes, Mrs. Bentley.

**STATEMENT OF HON. HELEN BENTLEY, A U.S.
REPRESENTATIVE FROM MARYLAND**

Mrs. BENTLEY. I will just ask that my written statement be submitted, and you said it would.

Mr. PICKETT. Yes.

Mrs. BENTLEY. I just want to point out, Mr. Chairman, that I am going to be talking to the Admiral about cargo preference, but I would also like to point out that I am going to have an amendment attached to the FMC authorization bill. It is an amendment that would be identical to H.R. 56 which is language designed to extend the 1986 freight forwarder compensation law to all ocean freight forwarders, and I understand it is not a controversial issue. And so we are going to move ahead on it, and I will just include the whole statement, Mr. Chairman.

[Statement of Mrs. Bentley follows:]

STATEMENT OF HON. HELEN DELICH BENTLEY, A U.S. REPRESENTATIVE FROM
MARYLAND

Mr. Chairman, as you know, there are many issues before our Subcommittee this morning and I have many questions for our panelists, especially for Admiral Herberger regarding his agency's record of compliance to cargo preference laws.

However, before I speak about cargo preference and other related issues, I would like to bring to the Subcommittee's attention an amendment I will offer during markup of the FMC authorization bill. The amendment would be identical to H.R. 56, language designed to extend the 1986 forwarder compensation law to all ocean freight forwarders.

In 1986, Congress passed a critical "independent action" amendment to the Tax Reform Act, essentially to protect U.S. freight forwarders against unfair immunity in the Shipping Act of 1984. The 1986 Amendment established a minimum rate which the steamship conferences acting in concert must pay U.S. freight forwarders, and it permits individual steamship lines to negotiate compensation with freight forwarders.

The independent action provision in the Tax Reform Act was an important first step in protecting hundreds of freight forwarding companies and thousands of their employees throughout the United States and in establishing a more competitive climate in the export trade arena.

Nevertheless, the wording of the "independent action" provision limits its application to freight forwarders who are also custom brokers, due to the jurisdictional lines of the committee involved in passage of the measure in 1986. There is no reason not to include all freight forwarders irrespective of whether they are custom brokers. H.R. 56 is noncontroversial legislation that should have been adopted by Congress years ago.

Finally, Mr. Chairman, I would like to say a few words regarding the situation with cargo preference. On February 23rd, an article was printed in the Journal of Commerce describing my efforts to ensure that military assistance shipments for Greece meet cargo preference requirements, under Public Law 664.

As you know, Mr. Chairman, MARAD is directed by law that it ensure all government-owned, military assistance cargoes by first tendered to U.S. commercial vessels before being shipped on Navy-owned bottoms.

Despite this mandate, I and many other Members of Congress have received numerous complaints from American shipping industry about agencies diverting military foreign assistance cargoes to vessels under the control of the Military Sealift Command (MSC), without soliciting bids from the industry.

During today's hearing, I hope I can have assurance from Admiral Herberger that future munitions shipments to Greece and similar cargoes, which apply to cargo preference laws, will be offered, as required, to the U.S.-flag commercial fleet.

Mr. Chairman, I would like to include into the record a February 23rd article from the Journal of Commerce regarding cargo preference. Also, I would like to submit for the record a statement by Harold Brauner, President of the National Customs Brokers and Forwarders Association, supporting my efforts to extend the forwarder compensation law to all freight forwarders.

Thank you, Mr. Chairman.

Mr. PICKETT. All right. Thank you. And at this point, we will begin the questioning of these two witnesses with Mr. Bateman followed by Mr. Taylor.

Mr. BATEMAN. Thank you very much, Mr. Chairman, and, General Fogleman, welcome. We are delighted to have you before the Committee this morning. Admiral Herberger, welcome to you also. I am sorry that Armed Services Committee business kept me from being here for your testimony.

Now, I would like to raise with you, Admiral, the concerns that I and others on the Committee, I think, share concerning the Title XI loan guarantees for export vessels that was put in the defense authorization bill last year. We went through a very difficult series of negotiations and discussions that went to the upper reaches of the White House with reference to how that program should be structured. And the real burden of the disagreement was whether or not Title XI loan guarantees would be the ground rules for this program or whether or not it would be controlled by OECD guidelines.

There was no question whatsoever that that disagreement between the House and the Senate and the conference on that bill was worked out in terms of a clear recognition that it should be Title XI, not OECD. I would like to know where that stands at this point and when we can anticipate the promulgation of regulations, and am I likely to be pleased or satisfied that the agreements reached last year have been honored or whether they are being breached?

Admiral HERBERGER. Congressman Bateman, I would expect that our regulations will be out within about two weeks. They are under final review. I would be so bold as to say I think you will be pleased with the results. We have had an ongoing debate for a number of weeks now over the issue as you have described it. We also know that starting Monday the next session of the OECD negotiations will continue in Paris, and the outcome of that is going to, obviously, be very important to the future shipbuilding scenario in the United States.

We will be issuing this regulation, and it will be in compliance with Title XI. We will match what foreign governments do in this area, unless they come in and use OECD terms, which are very restrictive and not being used; then, depending on what happens with the negotiation in Paris in terms of any follow-on support that governments give. We are going to do our best to comply with Title XI as prescribed by the Congress last fall.

Mr. BATEMAN. Mr. Chairman, if I may follow up, your last comments, Admiral, do give me some pause or reasons for concern, the concern being that you are focusing apparently upon the loan guarantees contemplated in the defense authorization bill will be governed by whether OECD terms are being adhered to by foreign governments, that we will do, in our program, whatever it is that they are going to do in theirs.

Admiral HERBERGER. No. I misspoke then if that was your interpretation.

Mr. BATEMAN. Oh, OK. Well, maybe I misunderstood.

Admiral HERBERGER. There are three parts of the Title XI; two new phases, one for export vessels and the other for shipyard mod-

ernization. The third is domestic Title XI which has not changed. Regarding Title XI for export vessels, we are going to use the maximum flexibility of the program as you prescribe. And, again, the only caution I would give is that if we have any success next week in Paris with the negotiation to reduce the substantial support that foreign governments have been giving their shipyard industries, then we may have to make some adjustment reflecting that. But in the absence of any success, we are going to go to the maximum that we can go by the law.

Mr. BATEMAN. Well, I don't know fully the scope of what is going to be discussed in Paris or elsewhere, but the concern I would like to express and perhaps you will take back to your associates is that if we focus only on the terms of loan guarantees that may be available or the financing terms that other countries make available and only that, we still leave our shipbuilders with a decided disadvantage because even if we are going to match in liberality whatever other governments do, we are still faced with other kinds of subsidies that foreign shipyards get and we don't. And I think it is not just a matter of comparing OECD to OECD without any other factors.

Admiral HERBERGER. There are little, if any, loan guarantees by foreign nations. Their assistance to their shipbuilding industries is in the terms of direct loans, soft loans, tax benefits, and others. So there is no loan guarantee program of any consequence, and, therefore, it is our understanding that we will be able to use the Title XI guarantee program to an advantage for U.S. shipbuilding, as one of a number of things that we are trying to do to help our shipyards compete in this very difficult arena.

Probably the most important of the five elements of our shipbuilding program is success in the OECD negotiations because of this long list of support that other nations have given traditionally and today continue to give to their shipbuilding industries. Title XI is just one area in which we could offer assistance that would help. It is not the only answer, but it is certainly one that we are very anxious to be able to use to get some actual shipbuilding vessels for export.

Mr. PICKETT. The Chair recognizes Mr. Taylor who will be followed by Mr. Ackerman.

Mr. TAYLOR. Thank you, Mr. Chairman. Admiral, if I could just begin with a statement—actually a question. How much of your budget is appropriated by the OECD?

Admiral HERBERGER. None.

Mr. TAYLOR. How much of your budget is appropriated by the same Congress that passed the Title XI program last year?

Admiral HERBERGER. All of our budget—100 percent.

Mr. TAYLOR. Would you keep that in mind, sir?

Admiral HERBERGER. Yes, I will.

Mr. TAYLOR. You see, I am getting a lot of cut-spending-first letters, and if people forget where their loyalties are, Congress has a way of reminding them, and I mean that, sir. We pass laws in this country. We are not bound by nonbinding agreements of the OECD, and we are trying very hard in this Congress to bring back American shipbuilding. We need the assistance of those people who are responsible for running our maritime program.

Admiral HERBERGER. Yes. I understand that.

Mr. TAYLOR. I want to begin—and, again, I realize this is the staff briefing, but on page seven of the staff briefing it talks about the reasons for MARAD. And I have got to begin by saying I am a bit concerned that of the five primary means of achieving a strong U.S. merchant marine it doesn't even include shipbuilding. And I think we have to get back to realizing that shipbuilding is important in everything that we do, in particular, with regard to our nation's defense. General Fogleman, how many M-1, A-1's were shipped to Desert Shield and Desert Storm by air?

General FOGLEMAN. To Desert Shield? I cannot tell you that. I don't know, but I would suspect very few, if any, because that is not a very efficient use of air.

Mr. TAYLOR. So you would say that probably 99 percent of them went by sea?

General FOGLEMAN. Absolutely.

Mr. TAYLOR. How many Patriot batteries were flown in versus those that went by sea?

General FOGLEMAN. Again, I don't know that. The major Patriot battery move that I know by air was the one that we moved from Europe to Israel when we needed to get that one down there very quickly.

Mr. TAYLOR. On page four of your testimony, you talk about the purchase of some RO-RO vessels?

General FOGLEMAN. Yes.

Mr. TAYLOR. How many of those were U.S.-built vessels?

General FOGLEMAN. Could you answer that, Al?

Admiral HERBERGER. Three of twelve.

Mr. TAYLOR. Three of twelve.

Admiral HERBERGER. Because there were not that many in the U.S. fleet. That was the primary reason. We selected all those that were the size and speed we needed, and there were three.

Mr. TAYLOR. Of the \$5.8 billion that is projected to be spent on national sealift between '93 and '99, what percentage of that do you think will be spent on American shipyards and American-built vessels?

General FOGLEMAN. I think that with the exception of the conversions, all of initial purchase of ships for the money will be spent in the American shipyards. It is all programmed to be spent in American shipyards.

Mr. TAYLOR. I have heard some concerns expressed that on the medium-speed ships that the contracts have just been awarded that in some instances the price was abnormally low. What protections do the citizens have that these vessels will be delivered on time and on budget? What happens if the contractor fails to meet that price?

General FOGLEMAN. Well, the actual agency that does the contracting for this is the Naval Sea Systems Command, and so the guarantees or safeguards are those that are in a normal Federal procurement area. And I don't have those immediately available to me.

Mr. TAYLOR. Could you supply them for—

General FOGLEMAN. I would like to supply that for the record, Mr. Taylor.

[The following was submitted:]

NAVAL SEA SYSTEMS COMMAND CONTRACTS

The program manager for the building of our Large Medium-speed RO/RO ships (LMSRs) is the Naval Sea Systems Command (NAVSEA). LMSR contracts were awarded by NAVSEA in response to proposals that, after government analysis, were determined to be priced at a reasonable level, included a reasonable amount of profit, and contained a reasonable schedule. Fixed-price incentive (FPI) contracts that include 50/50 share line were awarded to procure the LMSR ships. The opportunity for each contractor under this type of contract to share in any savings has proven successful in motivating contractors to control both cost and schedule. The Navy program manager has placed on-site representatives in each of the shipyards who, together with resident supervisors of shipbuilding personnel, are closely monitoring shipbuilder physical progress which is used as a basis for progress payments. If difficulties are encountered, every effort will be made to assist the contractor in his efforts to maintain cost and schedule projections. This notwithstanding, there is no way to guarantee LMSR ships will be delivered on time at cost. For example, on 20 September 1993, a stop work order was issued to one of the two new construction shipyards as a result of a protest made by Newport News Shipbuilding and Ingalls Shipbuilding Inc. On 1 February 1994, as a result of the GAO decision in favor of the government in this matter, the stop work order was lifted. Negotiations are progressing to determine the nature of any cost or schedule impact this interruption will have.

Mr. TAYLOR. Are you satisfied in your mind that the citizens won't end up paying to have another yard complete those vessels as has happened on some other programs?

General FOGLEMAN. At this point, I have absolutely no indication that that would be——

Mr. TAYLOR. But my question again is what guarantees are there that the taxpayers won't pay twice for the same vessel?

General FOGLEMAN. I know of no guarantees other than the policy and the program direction that we have given which is to complete within 18 months of contract—to complete and deliver from those shipyards a ship.

Mr. TAYLOR. Again, if there is language that would prevent the mishaps on some other programs where the taxpayers pay twice for the same vessel, if that language is existing law, would you please provide it for me? If it is not, I would strongly suggest that such language be put into the law so that we don't continue to make the same mistakes over and over. You talk about a reserve program for mariners. Would they be subject to the UCMJ?

General FOGLEMAN. No, sir. I tried to avoid using the term reserve if I could in this context because it carries with it a lot of baggage and expense, and I am not so sure that we need a formal reserve program as we have for the other components. What we are really trying to do here and what we understand the situation to be is that we have many trained merchant mariners who are no longer at sea that would like to have some sort of guarantee of re-employment, the same sorts of rights that other reservists have, but not necessarily be engaged in an active reserve program. And we need a means to identify these people and get them into a program where they could be available.

Mr. TAYLOR. If I am not mistaken, you are asking for some funds to actually pay these people to be in a marine reserve-type program. Is that correct?

General FOGLEMAN. This proposal is part of the MARAD budget proposal or would be, and I think Admiral Herberger could talk to the details of it.

Mr. TAYLOR. My question is if you are going to pay people to participate in this program, what guarantee do we have that they are going to show up in the event of a national emergency? Admiral?

Admiral HERBERGER. If we had a program like this, it would be a contract with individuals. They would only be paid for their actual active duty—the activation of a vessel, a test activation, a sea trial, brief periods of time each year, and they would only be paid when they participated. It would be contractual, and it would not be, as General Fogleman said, a reserve in the cradle-to-grave sense, where they would be obligated for years.

The advantage of a program like that would be that it could be adjusted annually to the size of the RRF and the reserve ships on which they are needed. They would become familiar with the vessel that they are assigned; this would overcome one of the major deficiencies of the activation of the RRF during Desert Storm and Desert Shield. It is not a reserve program. It is a mobilization pool of mariners that would be under a contract to provide their expertise on an annual basis to ensure that they are current and familiar with the vessels that we would have to activate during a mobilization.

Mr. TAYLOR. But, again, Admiral, if the whole point is to have a reserve corps of trained sailors and officers, what good is it if you have no means of seeing to it that they are going to show up in the event of a real shooting war?

Admiral HERBERGER. The history of mariners at least in my lifetime, is that they have showed up, they have performed well, and they haven't shied away from participating when this country needed them. There is nothing to indicate that we would have a problem with their showing up. It would be like any other contract that they would have in their professional lives.

They would have an obligation to do that. They don't have to be under the UCMJ. As a matter of fact, most of them would come out of the union organizations. This would be an affiliation with the unions, and the unions would have a role to play in terms of recruiting and training and ensuring that we had a sufficient pool of the skilled mariners.

Mr. TAYLOR. If the Chairman would permit me one last question?

Mr. PICKETT. OK, Mr. Taylor, if you will conclude with this.

Mr. TAYLOR. Is the Maritime Administration taking a position on the efforts to prohibit foreign-flag vessels from participating in cruises-to-nowhere? It is a very large market. It exists only because of a customs interpretation that allows us to circumvent some of the oldest laws in this country. It, obviously, would provide a boost to our nation's passenger vessels. Where is MARAD in this attempt to correct that situation?

Admiral HERBERGER. MARAD's position in this is that we are interested in anything that could increase American-flag participation, and that is about all I can say at this time. Because of maritime reform and other issues, we felt that we wanted to put all our effort into getting a bill passed this year to stabilize a certain level of American-flag vessels and also to help the shipbuilding industry.

Some of these other areas have been an ongoing debate for years. These other issues will come up, and we will engage in them. But my emphasis since being sworn in as the Maritime Administrator

is to do all I can to increase the strength and vitality of the American maritime industries, which include the operating merchant marine as well as shipbuilding.

Mr. TAYLOR. Wouldn't that measure do that?

Admiral HERBERGER. In my personal opinion, yes, and that is something, again, that I haven't engaged in, but I promise you I will.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. PICKETT. Mr. Ackerman to be followed by Mr. Manton.

Mr. ACKERMAN. Thank you very much, Mr. Chairman. Could you just briefly assess the contribution of the Merchant Marine Academy on the industry if you would for us?

Admiral HERBERGER. I am a graduate of the Merchant Marine Academy at Kings Point, and so I have personal as well as official feelings about this. For 50 years, and this is the 50th anniversary year of Kings Point, Kings Point has provided graduates to the merchant marine, to the allied industries and to the country at large. There has been no question about the record of achievement of the graduates of Kings Point.

The future of Kings Point, I believe, will be debated in Congress. The nature of the future employment of graduates of Kings Point is changing. It is changing from purely a maritime shipping focus to an intermodal focus because that is the nature of the transportation business. It is no longer just ocean transportation, but it is intermodal. It is origin and destination.

The focus of that program at Kings Point is beginning to change, so the future value of Kings Point will have to be determined by an evaluation and assessment of that nature. But the historic contribution that the academy and its graduates have made is well entrenched in the record, and I know most of the Members of this Committee are well aware of that.

There was no action taken on the fiscal year 95 budget to start implementing a tuition system because of the class that enters this summer. Many of them were already recruited, and it was too late. As you have stated in your statement, Congressman, for fiscal year 96, we are to begin implementing a tuition system that would pay for half the cost of operating the academy. I feel there is great value in the academy. It will have to be assessed against the other budget considerations that the Congress faces.

Mr. ACKERMAN. Would you care to offer us an opinion inasmuch as we are beginning the process and will be seeking advice of those in the know, and you are certainly high on that list—would you offer us an opinion as to whether or not you think it would be wise to do at this time?

Admiral HERBERGER. I think what I would have to say this morning is that there have been a number of observations regarding the impact, and some of the Members have stated them. Other citizens at large have stated the impact of cutting off, for all practical purposes, the opportunity for diversity, for all levels of income students to enter, and for the geographic dispersion that we have in a Federal academy.

The Maritime Administration is going to have to assess that, and convey our assessment to the Administration on the impact of this system. The decision that came out of the Vice President's

reinventing government NPR process broke. A tuition system was announced in September, but a good assessment has not been completed on the impact. That is what we will be engaged in. By not having to execute a tuition system in fiscal year 95, we have a little time, and also we know that the Congress has expressed great interest in reviewing this whole situation.

Mr. ACKERMAN. Thank you. No other questions.

Mr. PICKETT. Mr. Manton followed by Mrs. Bentley.

Mr. MANTON. Thank you, Mr. Chairman. Again, I would address some questions, and I don't want to be redundant about the Merchant Marine Academy. I think Mr. Ackerman and I feel very strongly about this issue.

With regard to the state academies, they seem to be concerned that the Maritime Administration Authorization Act of 1990, which amended the Merchant Marine Act of 1936, requires that, as a condition for a school to receive any Federal funding or the use of any government vessel, the schools must agree in writing to require as a condition for graduation that graduates pass the U.S. Coast Guard licensing exam.

The State academies they have compared their situation to that of a law school which will graduate you but is not required to necessarily guarantee that you are going to pass the bar exam. Most people that graduate from the academies do pass the Coast Guard exam, and probably most law school graduates pass the bar exam at some point, but not all.

So, my question to Admiral Herberger is, why do we have this requirement, and why do we have to continue to follow this policy? It seems to sort of impede on academic freedom or states' rights, however you want to look at it.

Admiral HERBERGER. My understanding is that by supporting the state academies with Federal funds, it has been the Maritime Administration's position that we require that they pass the license exam which was the fundamental purpose of those academies: to produce licensed engineers and deck officers. It has been the position, and I would continue to support it, that we keep that very strong incentive for them to pass the required licensed program at the end of their program if they receive Federal funds.

Mr. MANTON. You don't see any merit in their argument about academic freedom or states' rights?

Admiral HERBERGER. I will be honest. I——

Mr. MANTON. As a matter of fact, I think a very few—a very small number actually do not pass. I don't know the cost benefit here.

Admiral HERBERGER. I will be honest, Congressman. I haven't reflected on this very long so I would like to come back when I find out from the state academies why it is so important——

Mr. MANTON. Well, we will hear from them a little later.

Admiral HERBERGER. I know it, and I certainly want to listen to what they have to say about it. I am not up on step on that subject thoroughly.

Mr. MANTON. Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. PICKETT. OK. Thank you. Mrs. Bentley followed by Mr. Stupak.

Mrs. BENTLEY. Thank you, Mr. Chairman. General Fogleman, in your prepared statement you reference the total revenues provided for U.S.-flag shipping stemming from DOD's procurement of ocean transportation services as well as the added cost to DOD as a result of cargo preference. In order for the Subcommittee to fully understand the significance of these numbers, would you please provide for the record a complete accounting of how the dollar amounts were derived?

I am particularly interested in learning whether the \$1 billion for U.S.-flag procurement includes any sums not paid directly to U.S.-flag carriers, and with respect to the differential associated with cargo preference, the methodology used to arrive at the stated dollar amounts?

General FOGLEMAN. I will provide that, ma'am.

Mrs. BENTLEY. There is some question that this 530 million is grossly inflated for your information.

General FOGLEMAN. I understand.

[The information may be found at end of hearing under "Cargo Preference costs."]

Mrs. BENTLEY. Admiral Herberger, as you may or may not know, I have been a bug on the Public Law 664 as authorized by Section 901(b)(2) of the Merchant Marine Act of 1936. And in your letter to me of February 23 of this year, you stated that Vice Admiral Michael Kalleres has assured you that MSC will comply with existing law and policy regarding preference for U.S.-flag vessels.

This is in the context, I presume, of MSC's processing of foreign assistance cargo subject to Public Law 664 since your letter was in response to my criticism of MSC's use of a foreign-flag vessel for the carriage of ammunition from England to Israel sponsored under the Drawdown Foreign Assistance Program.

Despite your assurance, and that of Admiral Klaris, I have now received a letter dated February 22 from Admiral Klaris in response to my inquiry about the scheduled handling by MSC of 25,000 metric tons of ammunition from Germany to Greece sponsored under our Foreign Assistance Program.

Admiral Klaris discussed the operation of MSC securing vessels for this cargo, and he specifically stated that he views MSC's use a controlled MSC vessel even when competing head to head with a privately owned U.S.-flag commercial vessel for the carriage of Public Law 664 foreign assistance cargo as meeting the requirements of Public Law 664 as MSC's control vessels are "privately owned and operated" while under charter to MSC.

This is despite the fact that Public Law 664 specifically states that privately owned commercial vessels—that is what we should be concerned about. I am sure that you are aware that there are Court cases which have determined that when the government takes a vessel under charter for more than a single voyage, that vessel loses its commercial status.

In regard to all of this, what steps are you going to initiate to stop this very serious problem where MSC views its use Public Law 664 cargoes of an MSC controlled, privately owned U.S.-flag vessel in competition with the privately owned U.S.-flag commercial vessels in violation of Public Law 664? I must point out that this is the crux of MSC's continued violations of Public Law 664.

In the same context, therefore, Admiral Herberger, I also would like to know whether you are going to identify MSC in MARAD's 1993 annual report on cargo preference compliance as violating Public Law 664 for using foreign-flag vessels for both the Israeli ammunition drawdown shipment from England to Israel in December of '93 and the earlier shipment of vehicles from England to Columbia? I must point out to you that MARAD in its 1989 annual report so identified MSC in a nearly identical situation. That is a mouthful.

Admiral HERBERGER. We have been in constant dialog with the Military Sealift Command regarding this issue and a number of related issues, and the crux of it becomes the sizing of the controlled fleet and the use of the controlled fleet versus the use of commercial fleet.

So, again, my position, in compliance with the role that MARAD plays, is to be the keeper, if you will, of the preference cargo laws and to ensure that government agencies comply. I promise that I will continue this dialog, and we will have to get these issues resolved. I will report it in the fiscal year 93 annual report on cargo preference compliance. If they were in violation, we will report it as such.

Rather than have to report every few years that one agency or another is in violation, I would rather get to the crux of the issues and see if we can determine what the correct intent of Congress is in these issues and not be subjected to this constant and continuous stream of interpretations which result in cargoes being shipped on foreign-flag ships. This is not the thrust of these preference cargo programs. Admiral Kalleres has promised to cooperate, and we are going to continue to work on this.

Mrs. BENTLEY. Well, I am glad to hear that you are working with other Federal agencies to stop this type of nonsense because there have been a lot of contradictions, I might say, from other agencies on food aid, on military, et cetera, on what they term is cargo preference and what is not and what should be contained. I will have some more questions along that line for you, Admiral. I will submit them later. Thank you. Thank you, Mr. Chairman.

Mr. PICKETT. OK. Thank you. Mr. Herberger, before I get into the other questions, I had an issue that was brought to my attention involving a vessel by the name of Golden Monarch. Are you familiar with this vessel?

Admiral HERBERGER. Yes, I am.

Mr. PICKETT. It appears that this vessel is undergoing some rather substantial alterations in a Korean shipyard, and I suppose that you will have to answer the question of whether or not it is going to be eligible for immediate entry into preference trade or whether it is going to have to wait the three-year period. Can you enlighten this Committee on this issue?

Admiral HERBERGER. We are right in the middle of that discussion. The vessel, I think, is 19 years old. It has been in the American-flag fleet for all these years. It is currently in a Korean shipyard, for modifications; widening the tank tops so that the vessel can be used to carry grain. I am aware that the Coast Guard has assessed something in the vicinity of an eight percent structural change—what they call steel weight.

The Maritime Administration is not obliged to use the standard that the Coast Guard uses in this area. I have it under review, but haven't completed it yet. We have engaged in this subject just in these last few days. All of this has just taken place. I guess the vessel went into the Korean yard in early February.

Mr. PICKETT. I would just add that we know about some of the Coast Guard practices. They are so accommodating they even send their own inspectors over to the foreign yards to make the inspections while the construction is going on. So I think we hope that you won't follow the lead that they are providing in this area. The Chair would recognize Mr. Stupak at this time.

Mr. STUPAK. Thank you, Mr. Chairman, and thank you, gentlemen, for appearing today. If I could, I would like to follow up on a question by Mrs. Bentley, General Fogleman. Mrs. Bentley mentioned that it is about \$1 billion a year in freight revenue to U.S. carriers, but it is my understanding that DOD sort of oversees this program, and they charge overhead costs. What percentage of that \$1 billion is DOD oversight costs?

General FOGLEMAN. Again, I do not have that specific number, but if you would permit me, Mr. Congressman, I would give you a detailed breakout of all those costs and the information that Congresswoman Bentley asked—

Mr. STUPAK. OK. Thank you.

General FOGLEMAN [continuing]. to give you an accurate perspective.

Mr. STUPAK. Well, I am really concerned about the so-called overhead costs. It seems from what I understand, it is rather substantial. Is anyone looking at it to see how we can cut down the overhead costs, get more money into the commercial?

General FOGLEMAN. That is a major initiative that we have ongoing, and I need to understand what we are calling overhead costs because, as you know, we have two segments of trying to satisfy our defense requirement, the so-called surge requirements, and as a result, we have to have a certain number of organic ships to be able to do that quickly while we can bring on the commercial fleet in a crisis. So I need to make sure I understand exactly what is in there, and we will get that to you.

[The information may be found at end of hearing under "DOD Overhead Costs.]

Mr. STUPAK. Thank you. Admiral, under the shipbuilding loan guarantee program, the representatives of the U.S.-flag vessel industry—they are concerned and they would like to actively participate in the Title XI loan guarantee program. Yet, we understand that the Maritime Administration in the past has not encouraged their applications for construction of passenger vessels. Can you tell us why that policy and if you intend to continue that type of policy?

Admiral HERBERGER. The Maritime Administration, in the future, will be directing the Title XI program in order to get the maximum amount of shipbuilding work that we can out of it. I was briefed this morning on a MARAD policy regarding passenger vessels that were day cruises—they were not at sea overnight. That policy has been in effect for many years.

I want to maximize using the guarantee program to increase shipbuilding, and the size of the vessel will not enter the equation at this point in time. Obviously, with a certain amount of money, we are going to try to get the maximum out of it, so there may be some very small vessels that won't come under the program. But we have used it in the past for barges and for other things, and if it translates into more shipbuilding, then that is going to be the thrust of our policy.

Mr. STUPAK. OK. I am in northern Michigan there with Mackinaw Island a number of other islands, and they go back and forth during the day, and they haul tons of people, but they just never——

Admiral HERBERGER. Again, if they are for hire in the commercial market, we are going to do our best to bring them into the program.

Mr. STUPAK. So under your leadership I can encourage them to apply them?

Admiral HERBERGER. Yes, by all means, please.

Mr. STUPAK. All right. Thank you. That is all the questions I have at this time, Mr. Chairman.

Mr. PICKETT. OK. Thank you. Mr. Fields, do you wish to make a statement or have questions?

Mr. FIELDS. Mr. Chairman, I just ask that my statement be placed in the record.

Mr. PICKETT. Without objection, so ordered.

[Statement of Mr. Fields follows:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I am pleased to join you and the other Members of the Subcommittee on Merchant Marine in participating in this hearing concerning the Administration's budget requests for Fiscal Year 1995 for the Federal Maritime Commission (FMC) and the Maritime Administration (MARAD).

The request for the FMC may be just a little short of what the Agency needs for this coming year. The budget request is for \$18,700,000, which is \$200,000 less than the Agency received in their Fiscal Year 1994 appropriation. Based on information we have received, it would appear that this funding level is not sufficient to cover even the authorized personnel level for the Agency for this coming fiscal year.

With all of the regulatory and enforcement actions that the FMC is involved with, I believe that the Subcommittee may want to consider increasing this funding request, at least to the level the Agency had last year. This would minimize any disruptions of ongoing enforcement activities.

With regard to the Agency's programmatic responsibilities, I am confident that the FMC will continue monitoring issues related to the Shipping Act of 1984 to assure that we have a fair regulatory climate for U.S.-flag carriers. I would suggest, however, that it may be a little premature for us to begin considering any changes to the Shipping Act until we determine whether we will succeed in enacting maritime reform legislation this year.

As for the budget request for MARAD, other than the difference relating to maritime reform, where our bill has a funding level of \$1.2 billion compared to the \$1 billion request from the Administration, most of the line-item requests appear to be consistent with the Committee's expectations.

I am pleased to see that the Administration has decided not to proceed with its flawed proposal to reduce funding for the Merchant Marine Academy at Kings Point, at least for this coming Fiscal Year. Our Committee will want to review this situation very carefully. The Congress has historically supported Kings Point and I am not aware of any changed circumstances which would justify cutting funding for the Academy and simultaneously charging tuition. Such a proposal would have a chilling effect on a family's decision to send their son or daughter to the Academy, and it would drastically change the makeup of the student body.

Furthermore, Mr. Chairman, I am encouraged that the Administration is continuing to support our six State maritime schools. These institutions, particularly the Texas State Maritime Academy in Galveston, provide a first-rate education to hundreds of students, and their graduates have a remarkable record of obtaining employment in the U.S. maritime industry.

In my judgment, the key to their success is invaluable experience they obtain during their annual summer cruises on the five state maritime training vessels.

Mr. Chairman, as you may know, two years ago, we were successful in transferring a surplus Navy vessel, the *Chauvenet*, to the Maritime Administration, for assignment to the Texas State Maritime Academy. Since that time, \$12 million has been appropriated to convert the *Chauvenet* to a training vessel so that it would be ready for its 1995 summer cruise.

I am told that only about \$2 million has been spent on that conversion and that the Maritime Administration and the U.S. Navy are now locked in protracted negotiations as to who will take the lead on this effort.

Mr. Chairman, let me be blunt. I do not care which agency serves as the leading spokesman or consultant on this project. What I do believe, however, is that it is time to end the internal bickering and to carry out Congress' unambiguous intent to expeditiously convert the *Chauvenet* to a training ship for the Texas State Maritime Academy.

Finally, it is appropriate that MARAD has decided to focus its funding effort for the Ready Reserve Force on the maintenance of their existing vessels, rather than spending money to acquire additional ships. Clearly, MARAD should use their limited resources to assure that their existing vessels are operational and available when needed. If additional vessels are required, money left over in the Navy account could be used to obtain more ships for the fleet.

Thank you, Mr. Chairman. I look forward to the testimony from our witnesses today and hope we can pass our authorization legislation this year.

Mr. FIELDS. I just have one comment and question for the Admiral. Admiral, as you know, two years ago, we were successful in transferring a surplus Navy vessel, the *Chauvenet*, to the Maritime Administration for assignment to the Texas State Maritime Academy. And since that time, \$12 million has been appropriated to convert the *Chauvenet* to a training vessel so that it would be ready for the 1995 summer cruise.

I am told that only about \$2 million has actually been spent on that conversion, and that the Maritime Administration and the Navy are now locked in protracted negotiations as to who will take the lead on that particular effort. And let me be very blunt. I don't care which agency serves as the leading spokesman or consultant. What I do believe, however, is that it is time to end the internal bickering, if that is the case, and to carry out Congress's unambiguous intent to expeditiously convert the *Chauvenet* to a training ship for the Texas State Maritime Academy. I just wondered if you had any comment on that?

Admiral HERBERGER. I get your message loud and clear, and we will break that logjam. We are making some headway. We have an agreement that MARAD will have the lead on the conversion. Now it is a matter of getting the moneys transferred from the Navy Navsea Command to the MARAD account. We are going to try to hold it to the original schedule. I have discussed this with Texas A&M officials, and we know how important it is to their program to replace the older training vessel.

Mr. FIELDS. But you feel that you have got the legal authority language—

Admiral HERBERGER. I understand that we may need a minor fix from the Hill, and we will be coming to you very shortly. MARAD has \$2.1 million left of the \$4 million something, and there is \$8 million in the SCN account in Navy. I was just briefed before I

came over here this morning that we may need a very minor technical fix to clear this up, and if that is the case, we will be coming in with it.

Mr. FIELDS. Admiral, we will be glad to work with you on getting the fix that is required. Of course, I would hope that perhaps all the parties could sit down and work this out amongst themselves so that this could be moved expeditiously forward. I will be glad to work with you on that.

Admiral HERBERGER. I will engage in this, and if we need help from you, I will certainly come back, but we will try to work this out.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. PICKETT. OK. Thank you. Admiral Herberger, it appears that your operating budget has been significantly reduced, and I wonder if you could tell us a little bit about how you plan to cope with this reduction, how many positions may be eliminated, what kind of reorganization activities you may pursue, whether your enforcement and oversight functions are going to be compromised, and how you will be able to move ahead with your research and development plans, specifically the Maritech program and how that is going to fare in all this, and what will you be able to do insofar as increasing the research and development capability of the Maritime Administration?

Admiral HERBERGER. We will reduce our FTEs, our permanent positions, by 137 from now until 1999. That is a 12 percent overall reduction. In compliance with the Administration's order to streamline and get a better mix of senior-level to junior-level employees, we will be realigning our organization. We are going to reorganize. There has been a little publicity prior to our officially finishing our efforts in this.

What I am going to do is reorganize MARAD so that it is in a better position to function with a reduced force. We are going to create an entity that will concentrate on shipbuilding. Another group will concentrate on ports and intermodalism, and another will concentrate on the increasing national security functions that MARAD has become engaged in the RRF; certainly the new Maritime Security Program; NATO planning, and some of the activities in which we have traditionally been involved.

We are going to, by and large, keep the regional offices as they are but increase the service that they provide in those areas. We are engaging in dredging, in more marketing to promote the use of U.S.-flag vessels for the carriage of U.S. exports and imports; and ports and intermodal issues so that our agency, as a prime promoter, of those will be able to provide better customer service. The organization needs to downsize and reorganize, and to take those assets that have been in what I would call some of the older programs and realign them to function for the new functions.

Enforcement—I don't plan to see any reduction in our enforcement role. R & D—we were successful in getting a nearly threefold increase over last year's R & D. We have gone from \$1 million last year to \$2.9 million, an incremental increase. We are going to concentrate, again, on ports, intermodalism, competitiveness for the industry, human factors, and the environment. It is an incremental plus-up to the Maritime Administration's R & D budget.

Mr. PICKETT. I think you touched most of it. Thank you. The next question has to do with the RRF fleet. And one way to lower the cost of the RRF fleet is not to perform maintenance that should be performed, and not to break these vessels out on the schedule that they should be broken out on, and to ignore requirements about how quickly they can be brought on line in the event of an emergency. What are you doing to ensure that none of these things are going to happen?

Admiral HERBERGER. With the great cooperation of the Transportation Command, General Fogleman and his staff and the others involved in this, we have worked very closely to identify those vessels that would be needed on a four-day tether, a four-day standby. There are primarily the roll-on/roll-off vessels which we found from Desert Storm and Desert Shield were in such great need.

If supported with our program we plan to put 10-man cadre crews aboard to do maintenance as well as ensure that they are totally familiar with the propulsion plant and the operating equipment. That nucleus crew would be available if we had to activate in four days to provide that extra support. These vessels are going to be outported near the Army's ports of embarkation.

For the ships in five-day and the ten-day readiness status, we are going to group vessels. Again, some of them will be outported. We will put two-man crews on those so that we have individuals that will keep up some amount of maintenance but be very familiar with the vessels. That is a concept that will be continually reviewed to see if we are getting the best advantage out of two-man crews or whether we will group ships further and have larger teams working on them. The whole emphasis is increased readiness to ensure that the vessels identified for the surge phase are ready, much more ready than they were for Desert Storm and Desert Shield.

Mr. PICKETT. The funding that you have been given is going to be adequate to enable you to do what you say you are doing—

Admiral HERBERGER. Yes.

Mr. PICKETT [continuing]. in keeping these vessels ready?

Admiral HERBERGER. Yes, it is, and sea trials, dock trials, and other things are, again, important on an annual basis in order to see if these—again, we have got to remember these vessels are used vessels. Some of them have been in commercial service for quite a few years so it is going to take a lot of attention to ensure that these vessels are kept ready. The dock trials and sea trials that we have planned are very important so that we have at least, on an annual basis, and in some cases for those in a 10-day status maybe a biannual basis, an indication of the readiness and that we can make the needed repairs if we find, as a result of lay-offs and dock trials and sea trials, we have some problems. The emphasis is on greater readiness.

Mr. PICKETT. So the message that you are giving this Committee is that we can be assured that in 1995 there will be no diminution in the readiness of the RRF fleet? That is the message I am getting. Is that correct?

Admiral HERBERGER. Yes, Mr. Chairman. Yes.

Mr. PICKETT. OK. General Fogleman, can you tell us a little bit about the Maritime Sealift Command soliciting foreign owned ship-

ping companies to charter space on U.S.-flag vessels and how that is working?

General FOGLEMAN. Yes, sir. Well, as you know, this issue goes back some time ago into the 1980's when the U.S. shipping companies made these arrangements with foreign companies. And it was during this period of time that the MARAD ruling was made. And from the Military Sealift Command perspective at that time, the MARAD ruling was counter to competitiveness.

That is, as these liner companies had virtually a monopoly on certain shipping routes and as these foreign companies bought space on these ships, the failure to be able to go to that space or use that space cut down on the number of competitive opportunities. This was a long-term process wherein it went to the Justice Department. The ruling, of course, came down in the fall, and with that ruling, Military Sealift Command began to solicit to be able to use this capability.

Upon notification of the Congress, we were told that there were Members of the Congress that had great concern about this as it played on the cargo preference issue, and so we were asked not to do anything along this line until it could be reviewed by the Congress. And that is currently where we are at. In other words, we are holding in abeyance any action on this until the Congress has the opportunity to review it because we know it is of great interest both due to the shippers because it unravels their arrangements and to the Congress which has a great interest in this area.

Mr. PICKETT. The final question I have, General, has to do with your relations with U.S.-flag carriers. I believe that you do meet regularly with the chief executives of these organizations, and could you give us a little update on how your relations are with them, what you expect of them, and how they feel about the operation that you are conducting?

General FOGLEMAN. Yes, sir. Well, the last meeting we had was on the 7th of February, and this was the culmination of a year-long effort in which we had been working with them on various initiatives. And I would tell you that at the 7 February meeting the industry expressed the following kinds of concerns: They were interested in having us come up with some sort of an equitable rate structure that we could use in future contingencies; that is, that we would agree ahead of time, very similar to the Civil Reserve Air Fleet, if you would—a similar-type program where we would have either prenegotiated or preunderstood rates that they could depend on and we could depend on in the event of a contingency.

The second issue that they brought up is that they were very much interested in Maritime revitalization and our support for that. The third issue was that they asked us to continue to support cargo preference and the cargo preference program because that was very important to them. The additional issue that they brought up was that they could support us much better if we had some sort of a joint planning process that we could go through. And so we have begun that process.

Following the meeting that I had at U.S. Transportation Command with these folks, the Military Sealift Command has had a follow-on meeting, and we now have some working groups that are engaged in trying to address each of these issues. But I would say

in the main that this dialog has been very, very useful because it has exposed to defense transportation people a greater understanding of the issues involved in our maritime industry. And at the same time, both the unions and the industry have shown a great interest in flexibility in trying to satisfy true defense needs, and they have been flexible in this.

And so I am encouraged by what I have seen, and on my watch, I am trying to do away with the irritants, if you will. I support very much Congresswoman Bentley's initiative, but let us sort out the rules of engagement on things like cargo preference and so we clearly understand. I have tried to drive down the number of controlled ships that we have within Military Sealift Command, and we have put into place a new mechanism that will review this not just annually but on a quarterly basis. And it will also look at long-range types of forecasting.

And I am being very critical of requirements that don't stand the scrutiny because I happen to believe that in the long-term in the transportation business as the Department of Defense draws down, it will be foolish of us to try and replicate capabilities that exist in the commercial market or commercial industry if we can be assured access to that commercial capability in a crisis.

It makes no sense for us in DOD to try and build an intermodal system when an intermodal system already exists as long as we are able to tap into it. And so our long-term goal in USTRANSCOM is to make greater use of the commercial industry, not less, and we are trying to facilitate the moves in that direction.

Mr. PICKETT. Thank you. Mr. Taylor, do you have further questions?

Mr. TAYLOR. Admiral, I regret that my colleague, Mr. Stupak, left, but his questions with regard to the day passenger vessels and your response particularly troubled me. In the mid-1980's, traveling down near Cut Off, Louisiana, I saw one of the world's largest fleets. It was owned by the U.S. taxpayers. It was offshore supply boats financed through Title XI where the companies had gone belly up.

I would certainly encourage you—I would certainly remind you that in our country the misnomer of the mom-and-pop yard, the people who built ships 600 feet and down, they are doing very well. We actually export vessels under 600 feet. The problem in this country are the major shipyards—trying to wean them of government dependence. I don't think we are going to do that by building crewboats or offshore supply boats or day cruise.

I would certainly remind you of the purpose of the original Title XI program was to provide a shipbuilding base for the national defense, people who can build national defense ships, and the ships that can be used in time of emergency. I hope that the Title XI program won't get muddled into doing things we don't need to do. Most of those people are protected by the Jones Act. One of the reasons I am so adamant about the cruise-to-nowhere is to see to it that they are not competing with foreign-built ships. They can compete with each other. And I hope you would respond to that.

Admiral HERBERGER. Again, each Title XI application will be evaluated on its own merits. The secondary yards have done better for a lot of years, and they have businesses which are very impor-

tant to their individual states. We feel that it is in the country's interest to keep a broad base of ship construction and ship repair capability. The size of some of these jobs will not take a huge amount of the Title XI funds. We could spread the work among a number of different sectors in the country without taking too much from the total Title XI budget, but we feel that we should support yards that are providing jobs, providing a vendor base, and providing a base of skill that the country needs.

We are not trying to segregate here at all but, trying to look at the merits of the case. When I said that we were going to do our best, that doesn't mean that we are going to necessarily support some of those smaller yards to the exclusion of bigger projects, obviously.

Mr. TAYLOR. I am, again, going to the staff bulletin somewhat troubled—and I don't know what input they receive from your organization putting that together—that shipbuilding wasn't even listed as one of the reasons for MARAD. But, secondly, that when you compare the Administration's budget request where they are talking about \$1 billion for the maritime fleet for the operators and yet only \$50 million a year for the builders, I would sense that our priorities, although we seem to have at least a little bit of priority in each, that they certainly favor the operators, those 4,000 jobs over the 120,000 jobs in the building aspect. And I would like you to comment on that.

Admiral HERBERGER. Without a Maritime Security Program, we are going to lose what remains of the international U.S.-flag fleet. This industry is in extremes in terms of needing some support in competition with the foreign competitors, we will lose the great portion of the modern segment of our commercial operating fleet.

We do have a five-part shipbuilding program that the Administration announced in the fall. We are not trying to tie these two together. We are trying to help both, and the decision has been made that for the time being, we will support the shipbuilding industry with that five-part program which includes Title XI. That is the role that MARAD plays.

We are also in partnership on the ARPA Maritech Program to try again to ensure that whatever comes of that Maritech development program, it has a commercial ship orientation. I feel that both these programs are important, and we will do our best to support both industries.

The only thing I would say about the maritime ship program is that in the absence of a program, we are going to lose a substantial part of what we have left of the commercial merchant marine. I like to keep them separate. In the past, both of these industries have been sinking rapidly. And now at least for the first time in many, many years we have a program in both areas.

Mr. TAYLOR. It has been suggested that we could speed up the transition from government work to commercial work by giving a financial incentive limited liability to those people who voluntarily go to double hulls ahead of the deadlines of the Oil Pollution Act of 1990. Has the Maritime Administration given this any thought? Again, I am looking at low-cost ways of keeping things going. Obviously, the cruise ship bill would do that. Obviously, reopening OPA

90 would do that. Obviously, mandating that the ODS ships be made in America would do that.

Admiral HERBERGER. I think all these issues are going to be coming up. We haven't focused specifically on any one of them. Our effort has been toward getting a shipbuilding program going. We were very much part of the effort that culminated in the President's five-part initiative. A tremendous effort is now being made to get the Maritime Security Program, plus the funding for Title XI. We are going to continue to press forward to see what we can do because we are very interested in the survival of these very vital industries.

Mr. TAYLOR. I would like to ask on behalf of the Committee, with your permission, Mr. Chairman, your opinion on those three initiatives.

Admiral HERBERGER. I will submit those for the record.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. PICKETT. OK. Thank you, Mr. Taylor. Mrs. Bentley.

Mrs. BENTLEY. Thank you, Mr. Chairman. Admiral, Mr. Taylor referred to the cruise ship business, and I want to point out that the current revenue flow of some \$5 billion a year goes into foreign-flag cruise ship products of which 4.5 billion annually is paid by Americans, and some 4 billion a year goes directly to the U.S. trade deficit and of which zero dollars is paid in Federal or state taxes.

Over the past 12 months, this dynamic and growing segment of the international maritime industry has justified new shipbuilding orders for 10 additional cruise ships from foreign shipyards, two of them to be the largest ever constructed, orders worth well over \$3 billion of which 2.7 billion will effectively be paid by U.S. passengers and the operation of which 10 ships will contribute an additional 7 billion to our nation's trade deficit over the next 10 years.

Given the promotional responsibility of MARAD relative to the U.S. merchant marine and the American shipbuilding industry, the urgent need of the hard-hit U.S. shipbuilding sector to convert from military to commercial work and the inherent advantages which that industry enjoys in terms of skills, technology, low wage rates, and the competitive dollar among others, I would ask you specifically, one, what has the Administration done and is doing to assist the shipbuilding industry to enter the cruise ship market?

Admiral HERBERGER. The five-part program has as two of its elements: defense conversion, the technology transfer program which encouraged projects from the shipbuilding industry; and the Maritech program, improved productivity and improved introduction of technology. The Maritech program would provide matching funds to the industry.

I am not aware of any specific program that has been submitted to date, because none has been finalized. There are 30-odd applications that have come in. Some of those could improve the competitiveness of U.S. yards to enter into the commercial shipbuilding.

I know that the first step that some of the yards are considering is to get into the repair of these vessels because by their very nature, as you stated, such a large percent of the cruise ship industry operates out of the United States. And it is my understanding that many of those companies would prefer to have their vessels re-

paired and modified in the United States if the economic factors were correct.

It is my hope that some of the Maritech and defense transfer monies could be concentrated in that area because that is a ready market. I would hope, too, that through joint ventures, other activities of the shipyards, and some Title XI guarantees, they could recapture a portion of the growing passenger ship business.

Mrs. BENTLEY. Those dollars lost offshore hurt doubly. I might point out that last week Lloyd's List carried a story of reporting an analysis by Dr. Ernest Frankel, a former world bank advisor now with MIT, who said that the Phoenix World City Project is alive and well and could still provide the spark for revival in the U.S. shipbuilding industry which has not built a major passenger ship for 40 years. Is there anything moving on the Phoenix World City Project?

Admiral HERBERGER. We have had discussions with the people who are promoting the Phoenix World City. It is a huge ship, a 6,600 passenger vessel. It is a whole new concept—a floating convention center and ship that would cruise along the coast of the United States.

They have been in to ask about Title XI support. We don't have enough money in our Title XI funds to support something that large. That is the message that I delivered to them. Conceptually, I am not enough of an expert to know whether that is a viable option at this time. It is very impressive and time will tell whether or not they will be able to get the kind of financial support they need to build something on that scale.

Mrs. BENTLEY. Well, what is the approximate cost on it? Do you have any idea?

Admiral HERBERGER. It is over \$1 billion.

Mrs. BENTLEY. Over a billion?

Admiral HERBERGER. Yes. I think it is 1.1 or \$1.2 billion.

Mrs. BENTLEY. OK. We really need to save some of that money that is flowing offshore though in this cruise ship business. I mean, you know, it is just like all these imported goods that we buy, none of the moneys from the people who manufacture that goods overseas goes into our revenue here in the U.S. Treasury, and it is the U.S. Treasury which keeps people like yourselves and ourselves employed. We must remember that at all times. Thank you.

Mr. PICKETT. OK. Thank you. And, Admiral Herberger and General Fogleman, we thank you very, very much for your testimony. The Members will have some questions you will be requested to answer for the record, and we appreciate your presence here today. It has been most helpful to the Committee. Thank you. Admiral Miller and Mr. Sherman.

Let us see. We have Admiral Curtis, Admiral Mitchell, and Admiral Brown in addition to the first two names I mentioned that are present at the witness table. We welcome you, and you may have heard me mention earlier that your written statement will be made a part of the record in its entirety so you are not required to read it into the record. It will all be there. If you will make your oral remarks and summarize your testimony, we would very much appreciate it, and you may proceed. I have you here listed that Admiral Miller will start off.

**STATEMENT OF REAR ADMIRAL FLOYD H. MILLER, USN [RET.],
PRESIDENT, STATE UNIVERSITY OF NEW YORK MARITIME
COLLEGE**

Admiral MILLER. Yes, sir. Thank you, sir. Mr. Chairman, we have appreciated the support of this Subcommittee over the years, and as you know, we educate the workforce of the future. We are here to ask for your continued support.

We serve a major segment of the transportation industry. We are its recruiters and its trainers. This vast industry, contrary to many nay-sayers, continues to grow. Waterborne commerce is and will continue to be a necessity.

We provide licensed officers for the deep sea fleet, inland waterways, Great Lakes, tug and barge, coastal and offshore supply. Ashore, our graduates work in every facet of the industry ranging from ship design and repair to admiralty law, marine insurance, freight forwarding, and I could go on and on and on.

Two of our state academy training ships are cost-effectively dual purposed as troop ships. Expenses are shared by the states and the students. New York's ship is in Somalia right now as we speak moving troops out as a troop ship.

Even in these recessionary times, our job placement is over 90 percent two months after graduation. Your support is vital and necessary so that we can ensure that our cadets meet the stringent U.S. Coast Guard safety requirements, the Oil Pollution Act of 1990, and International Maritime Organization Standards of Training, Certification and Watchkeeping, and the National Transportation policy especially during this period of environmental sensitivity.

While we fundamentally support, and I am speaking on behalf of the state academies, the President's budget, we are deeply concerned that \$1.2 million for marine simulators has been diverted to offset other costs. This is a 10 percent cut. We had expected flat funding. Believe me, we clearly understand budget constraints. Our students certainly do for they are making up a considerable amount of the difference of the cuts that we have had in the past.

With the proposed \$1.2 million cut, the total amount being for six state schools, we are now back to 1987 funding. We are asking for fairness, i.e., flat funding; no new money in this case. We should not have to, we feel, carry the major portion of the burden of MARAD's budget reductions. We are already very cost-effective.

Simulators are a major force in instructional learning. They allow us to take advantage of new technology. The U.S. Coast Guard's training requirements are moving toward simulation, and they are incorporating more and more of it. Their Licensing in 2000 study bears this out. We need simulation to meet the new expanded IMO-STCW sea requirements for entry level deck cadets. Recently, IMO-STCW sea requirements went from six months to twelve months. Simulation time can be substituted as an equivalency. Other maritime nations understand this and are leading the way. Even with the support we have had to date, we are still behind, even behind many third world nations.

Once again, OMB has earmarked for removal the language which allows the proceeds from the disposal of NDRF ships to be used for facility and ship maintenance, modernization and repair, acquisi-

tion of equipment, and, most importantly, training ship fuel. This language was provided by the Congress for the last three years. What better way is there to use these funds than to train our nation's youth aspiring to jobs in the maritime industry?

Our most pressing need, however, in the state maritime academies is funding assistance for training ship fuel. Collectively, we receive \$1 million each year. Lack of fuel funding can impact on our ability to graduate our nation's licensed officers. Although Section 1304(c)(2) of the 1980 Maritime Education and Training Act authorizes MARAD to provide fuel funding, it has taken special congressional language on an annual basis for MARAD to do so. The last three years, funds were made available from NDRF ship disposal. Again, this year we request that the 1980 Maritime Education Training Act be amended to allow MARAD to offset fuel costs from unspecified funding available in our budget lines.

As we testified last year, we remain very concerned over the new license user fee for evaluation, examination, and issue of merchant marine officer licenses and merchant mariner documents. This fee charges our cadets almost \$500 at the worst time in their educational progress—graduation. And the truth of the matter is, we provide many of the services, i.e., evaluation, and the Coast Guard gets paid for it. We ask is that fair? I don't think so. And especially considering Congressman Manton's earlier question and following up on that, the Federal Government requires our state schools to pass a license to graduate and then charges them almost \$500 to take that license. Again, I ask is that fair?

We appreciate your past support and trust and hope that we may continue to receive it in the future. We want to continue to be a cost-effective contributor to our nation's economy and security. We want to continue to provide young men and women the skills to hold productive jobs in our nation's maritime industry and thereby contribute to its economy.

In closing, I can say we are fortunate as a nation to have Admiral Herberger as our Maritime Administrator, and we want to commend you and your Subcommittee and the Full Committee for your hard work on maritime reform. And on behalf of almost 3,000 students, we thank you. We would be pleased to answer any questions at this time.

[Statement of Maritime schools may be found at end of hearing.]

Mr. PICKETT. All right. Thank you, Admiral Miller. Now we want to hear from Mr. Sherman. Do you want to make a statement?

STATEMENT OF FRED S. SHERMAN, PRESIDENT, PROJECT ACTA

Mr. SHERMAN. Yes. Thank you, Mr. Chairman. I want to note that Mr. Riaz Latifullah is here with me today. Mr. Chairman and Members of the Subcommittee, I want to thank you for the opportunity to speak to you today about the United States Merchant Marine Academy and its future funding.

The first reason Project ACTA wanted to appear today is to thank the Subcommittee for its continued support. We appreciate your unanimous approval of the amendment to the National Performance Review bill, H.R. 3400, deleting tuition at the academy. We also appreciate your support of Congressman Ackerman's bill,

H.R. 3293, prohibiting tuition at all five Federal academies. Today, this bill has 50 co-sponsors, and we hope more will join and will help enact this legislation.

The second reason is to express grave concern, concern which I believe many of you share about the Administration's persistence in pursuing a tuition requirement at the academy. Even though this Committee deleted tuition at the academy from H.R. 3400 and the House overwhelmingly passed this amended bill, the Administration stated in the fiscal year 95 budget that it intends to start charging tuition at the academy in fiscal year 96. So it will be clear, it is Project ACTA's position that to let tuition be charged at the United States Merchant Marine Academy next year is tantamount to voting ultimately to close the academy.

This tuition issue is already affecting the academy. Recruiting has been already seen fewer applicants of lower quality. Tuition will have a negative effect on diversity. With tuition, the academy's obligations will have to change, and the Nation will lose more than it gains because of this. Also, tuition could even affect the accreditation at the academy.

I think that you all can see that with these uncertainties students with high SAT scores who are attracted to the Federal academy will look elsewhere if tuition is charged. The sooner this tuition issue can be favorably resolved, the better it will be for the academy and for the nation.

Some of you may ask why do we need Kings Point in what is considered to be a depressed job market. I understand an RRF manpower study shows that there will be a shortage of qualified vessel personnel in the relatively near future. Further, the International Maritime Organization studies confirm that the world will experience a shortage of 325,000 qualified seafarers by the end of this decade. Consequently, the Congress and the Nation has to have a longer-term view than just the next year or two.

Also, and probably more importantly, is the fact that 96 percent of the last graduating class of the academy are employed in the maritime industry, a fact that is not well known. Ninety-six percent are employed in the maritime industry. Fifty-six percent are sailing on U.S.-flag vessels and in the military. And the remaining 40 percent are in maritime positions ashore.

And it is not only what the last class is doing. It is what the academy has done for the past 50 years. Based on Standard and Poor's data, Kings Point ranks 16th, that is 16th, of all the colleges in the Nation in percentage of graduates holding positions in U.S. industries. This is not only the study that was done in 1985 but also the examination made in 1990.

So, in closing, let me say there is also other strong support for no tuition at Kings Point. Less than two weeks ago, the AFL-CIO Executive Council in meeting in Florida opposed the Administration's proposal to cut funding at the academy and charge tuition. Further, the Maritime Trades Department of the AFL-CIO issued a similarly strong resolution asking Congress and the Administration not to charge tuition at Kings Point and retain the full funding. Other similar support has come from organizations like the American Legion and the Maritime Law Association.

So, in summary, we deeply appreciate the Subcommittee's continued support of the United States Merchant Marine Academy. We urge you support Congressman Ackerman's bill and oppose the Administration's misguided effort to charge tuition at the United States Merchant Marine Academy. Thank you, and I would be happy to answer any questions.

[Statement of Mr. Sherman may be found at end of hearing.]

Mr. PICKETT. OK. Thank you, Mr. Sherman. Let us see if we have some questions. Mr. Taylor?

Mr. TAYLOR. No, thank you, only to tell Mr. Sherman that the second love of his life is being dredged as we speak.

Mr. SHERMAN. Right.

Mr. TAYLOR. And that your replacement, Ms. Melody, got a headline in the local paper that probably should have been yours, but we are glad to have you here today.

Mr. SHERMAN. Thank you.

Mr. PICKETT. The simulator issue that was raised is one that, I think, will concern this Committee because in this day and time we know the tremendous role that simulators can play in training and maintaining skills. And there are two aspects of the question. One has to do with what alternatives may be available to deal with this issue, with the idea of providing the capability at your institutions, and the other would be is there some way to take advantage of other simulators that may be already in operation somewhere in your general area of activity?

Admiral MILLER. I can't speak for everybody, but I can certainly say that Maine doesn't have any simulators anywhere nearby. We all have raised a lot of money, and New York and Maine has done a lot more to buy simulators. We are just asking for a little bit of help. If you take the \$1.2 million that you all have helped us with the last three years, and that comes out to about \$600,000 per school. Bridge simulators cost \$1.4 million, and I believe California doesn't even have one yet. But we are all raising money. At New York, we raised \$3.5 million over the last couple of years for simulators. We are all working very hard. We are just asking for a little help to get over the hump and also to keep them upgraded and maintained.

Admiral CURTIS. I would just like to add if I could, Mr. Chairman, that we think we are doing all we possibly can because in Maine our shiphandling simulator costs—just the electronics part of it costs 1.8 million of which we receive 700,000 of assistance from the Maritime Administration. All the rest was raised privately.

And in keeping with safety requirements, we still face the need to buy a liquid cargo handling simulator and to upgrade diesel and steam simulators. So, you know, we don't expect 100 percent, but this little extra matching funds that we have used for matching funds has been extremely helpful. And that is why I guess we would hope that it could continue for just a few more years.

Mr. PICKETT. Anyone else want to—yes.

Admiral BROWN. If I may address the question again, Mr. Chairman, about the use of alternative simulators. In the case of Great Lakes, the nearest one is at the union facility in Toledo. That really makes it cost-prohibitive Both in terms of travel and time away

from the classroom plus whatever charges the union may want to impose. But, more importantly, the real value of the simulator is to be imbedded in the curriculum, and to treat it as a field trip on occasion just would not suit the purpose.

Mr. PICKETT. Anyone else want to comment on that? Mr. Stupak, do you have some questions?

Mr. STUPAK. Thank you, Mr. Chairman. Just one for Admiral Brown from the Great Lakes Academy, of course. It is my understanding that your academy does not have a large training ship yet like the other schools and, you know, with a lot of help from my colleagues here who also sit on Armed Services, hopefully we will have one for you soon. But my question is what other additional support or other requests you may have if we are successful in getting you this training ship?

Admiral BROWN. If that occurs, Congressman Stupak, and it looks very, very likely this year, we would be asking, as we did last year when we were not successful, for a very small, modest allocation from the Maritime Administration budget for the state schools, something never to exceed \$50,000—perhaps more likely on the order of \$25,000, for the operating costs beginning perhaps as early as May or June to bring it from the East Coast to the Great Lakes.

Mr. STUPAK. Just a follow-up, that is pretty much a given. You just now need the funds transported from the East Coast into the Great Lakes?

Admiral BROWN. It appears so, yes, sir. The indications that I have had are that we may hear within weeks that one is available and to come and get it.

Mr. STUPAK. Very good and thank you, and I would like to thank my colleagues. Thanks.

Mr. PICKETT. Mr. Taylor, you have further questions?

Mr. TAYLOR. Thank you, Mr. Chairman. I am sure it is not lost on this distinguished panel the attendance at this hearing. And I think the attendance at this hearing is some small way of reflection of how people have come to look at the U.S. maritime industry. And I realize that you find yourselves in the position of having to justify the expenditure of educating young people for an industry that seems to be on the decline, if not, is well on the decline in America.

It is my belief that the strongest case that could be made for a strong maritime educational system would be a strong U.S. merchant marine. In the case of Mr. Sherman's organization, it is, obviously, very vocal based on the letters and phone calls I have had, a very well-established and well-heeled, if you want to use that word, alumni association. Well, I have heard something like they rank in the top 10 percent of all income-earners in the country, the alumni.

My question is what will it take to get your alumni as interested in preserving the industry overall and becoming vocal about that as they are in preserving these institutions? And the reason for the institutions is to supply officers for the merchant marine. And we seem to be spending a lot of time worrying about the tail of the dog rather than the dog, when we need both. And it is a question, and I hope it is some friendly advice, that if we could get your organization as concerned about the shipbuilding base, about it going after

the cruise ship industry that Mrs. Bentley talked about, about reopening OPA so that we can build some double hulls in this nation.

Would anyone like to respond to that? I have no problem with keeping the academies, but it is going to be a heck of a lot easier for me to justify spending \$30 million a year on the Merchant Marine Academy if we have a strong merchant marine to send these young people off to.

Mr. SHERMAN. Your point is very well-taken, Congressman Taylor, that there should be support for the American merchant marine. I know the alumni association has sent a letter to Chairman Studds in strong support of 2151 and for the total revitalization of the American merchant marine. I think that we all recognize, as I am sure you do, that the status of the seagoing American merchant marine is probably at its nadir, and that we all want to see it come back.

And I think that we look particularly with what is happening in the international marketplace that I see the American merchant marine is at that nadir and has only to go up. And we are very much in support of a competitive American merchant marine and are active in that and will support these other issues which I think you very properly called to our attention to not just be very broad scope and not be interested in the cruise ship and the other interests that you mention.

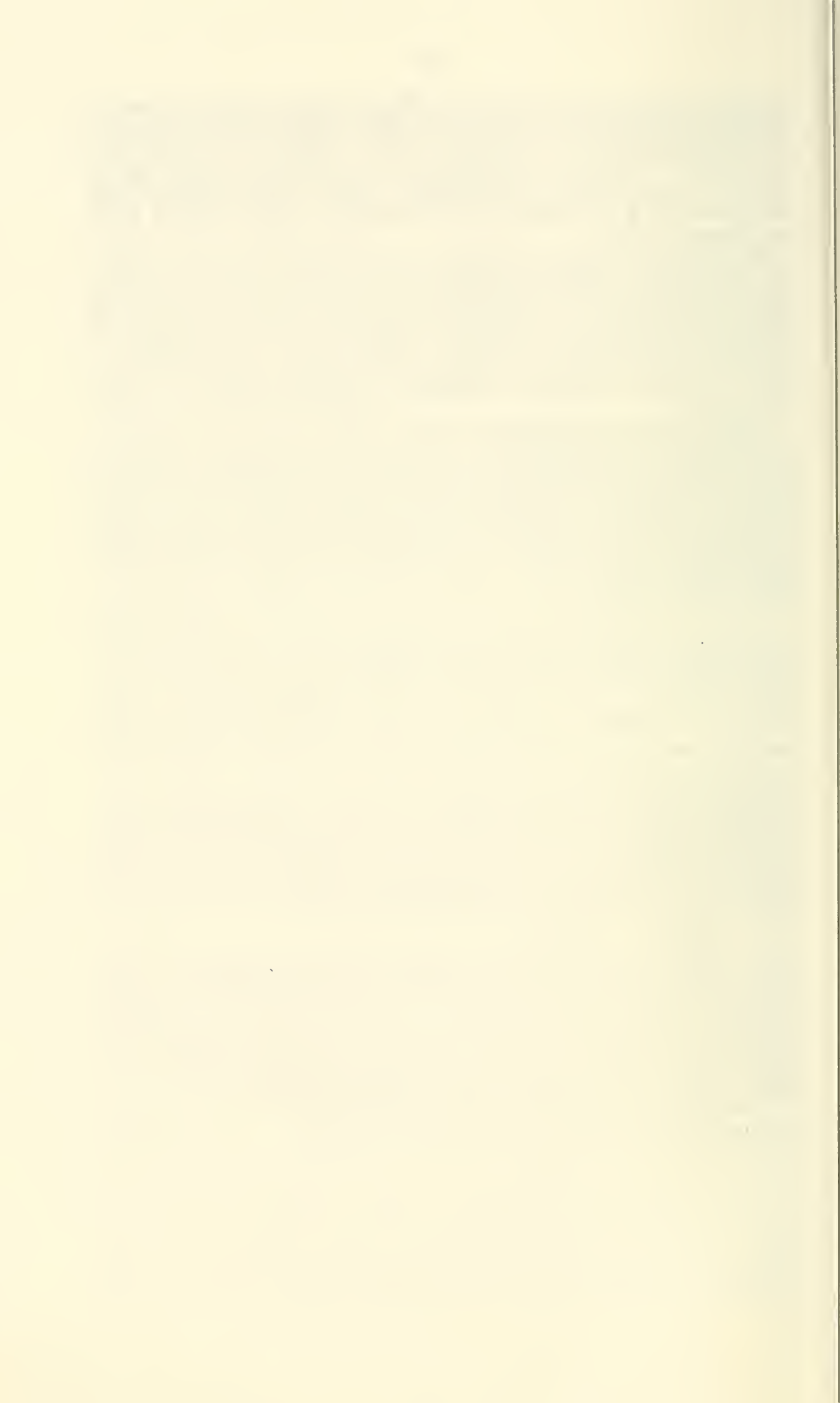
I do want to mention that I would be interested in seeing your statistics about the academy graduates being in the top 10. I have never heard that statistic before although I must admit that the educational process at Kings Point does create leaders for commerce and the maritime industry in the United States, and to the extent that it does that and these people are successful, yes, they probably are doing quite well, but it is through hard work and effort. Thank you.

Mr. TAYLOR. In response to the 10 percent, there was a common thread in almost every letter that I received from academy grads in defense of the academy. It was how they rank in overall income-earners amongst our country. So I would, I guess, have to get your alumni to write me another letter so we can find the source of that. I can assure you it was said on many occasions.

Mr. SHERMAN. Thank you.

Mr. PICKETT. Any other questions? Well, gentlemen, we thank you very much for your participation here today. I expect that some of the Members will have additional questions that they would like to propound to you for answers for the record, and the staff will communicate with you further in that regard. We thank you so very much for your participation here today. If there is nothing further to come before this meeting, it stands adjourned.

[Whereupon, at 12:23 p.m., the Subcommittee was adjourned; and the following was submitted for the record:]



STATEMENT OF
THE HONORABLE WILLIAM D. HATHAWAY
CHAIRMAN, FEDERAL MARITIME COMMISSION
BEFORE THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
SUBCOMMITTEE ON MERCHANT MARINE
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 9, 1994

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you to present the President's fiscal year 1995 budget for the Federal Maritime Commission.

The President's budget for the Commission provides \$18,700,000 for fiscal year 1995. This figure is \$200,000 less than the \$18,900,000 actually appropriated for FY 1994. It reflects an increase of \$346,000 for salary and benefit costs, coupled with decreases totalling \$546,000 (\$25,000 in travel expenses, \$310,000 for the Automated Tariff Filing and Information ("ATFI") System, and \$211,000 for administrative expenses). This budget also reduces the Commission's authorized FTE level from 225 FTEs in FY 1994 to 208 FTEs in FY 1995. However, we have determined that this budget can provide funding for only 205 FTEs because of the Commission's overall resource requirements.

The Commission's budget is strictly an operating budget and consequently involves very limited discretionary spending. Virtually all of the Commission's budget is comprised of mandatory or essential expenses such as salaries and benefits, travel, rent and guard services, supplies, telephone costs, on-line services, and printing and reproduction costs. These expenses are essential in order for the Commission to operate.

In order to operate within the \$18,700,000 budget and avoid furloughs, in addition to lowering our FTE level, the Commission will have to eliminate all promotions, awards, and furniture/equipment purchases, including ADP purchases, and drastically reduce training and other discretionary expenses. Besides damaging employee morale, this could seriously curtail the Commission's ability to meet its statutory responsibilities.

Mr. Chairman, in order to give the Committee a better understanding of how this money will be spent, I would like to review with you some of the Commission's recent activities and future plans.

One of the Commission's continuing success stories is the manner in which we have dealt with the restrictive practices of foreign governments. Section 19 of the Merchant Marine Act, 1920, empowers the Commission to adjust or meet conditions unfavorable to shipping in our foreign trades, and the Foreign Shipping Practices Act of 1988 authorizes the Commission to take action to address adverse conditions which affect U.S.-flag carriers in foreign trades, when such conditions do not exist for foreign carriers in the United States. We have been extremely successful over the years in using our authority under both statutes to combat foreign government actions that restrict commerce or unduly harm U.S.-flag carriers. Recently, the Commission began formal proceedings to address Korean laws and regulations that were hindering the operations of U.S. carriers and precluding U.S. consolidators from conducting business in Korea. We also addressed certain obstacles to trade imposed by the Peoples Republic of China, and various restrictions that were commercially disadvantaging U.S. carriers in the trade with Taiwan.

I am pleased to advise you that in each instance the involved foreign government initiated action which substantially resolved the matters that were adversely affecting U.S. companies or limiting trade. The Commission also has required certain carriers to file periodic reports so that we can continue to monitor conditions in these trades. Furthermore, the Commission can institute new proceedings regarding these trades, or others now under active monitoring, if it determines that sufficient progress is not being made to address any issues adversely affecting U.S. carrier operations overseas. Our actions to ensure an open and free environment with our various trading partners consistently

have been acknowledged and applauded by U.S. carriers, exporters and importers.

Another of the Commission's major efforts during the past decade has been the development and implementation of the ATFI System. I am pleased to report that the Commission began accepting official electronic tariff filings on February 22, 1993. While filing of official tariff data began slowly, the industry demonstrated the capability and willingness to comply with the system's requirements, and to have virtually all tariff matter filed by the end of December 1993. This goal has been substantially achieved. Approximately 3200 tariffs have been filed. Ultimately, we expect to have about 3500 tariffs in the system.

This fiscal year, the Commission has begun preparations for the recompetition of the major ATFI contract after the last option of the original 5-year contract expires in July 1994. The funding in the President's budget for FY 1995 provides \$1,100,000 for the ATFI System, which will allow us to continue the operation and maintenance of the system. The Commission has been a pioneer within the federal government in fostering and developing the computerized filing of tariff data and other information, which should benefit industry and consumers alike.

During FY 1993, the Commission instituted a fact finding investigation into carrier and conference service contract negotiations with shippers' associations and non-vessel-operating common carriers ("NVOCCs"). Hearings were conducted by Commissioner Ming Chen Hsu, who established a comprehensive factual record regarding carrier and conference practices, and whether such practices have the effect of denying service contracts to shippers' associations and NVOCCs, or subjecting them to undue or unreasonable prejudice or disadvantage. Commissioner Hsu's Final Report concluded that additional regulation was not needed in this area, but recommended continued monitoring and the gathering of specific service contract information. The Commission concurred with these recommendations and issued an order requiring certain carriers and conferences to file periodic reports concerning their service contract activities. The Commission has just recently received the first set of responses, which are now being evaluated. The Commission will continue to monitor these practices and will take appropriate action, if necessary.

Also, despite funding limitations, the Commission continued to emphasize its enforcement efforts during the past fiscal year. The Commission investigated malpractices in major trade routes, including the Transatlantic, Transpacific, Mediterranean, Central and South American, and Caribbean trades. During FY 1993, the Commission's enforcement actions resulted in fines and civil penalty collections of \$2,078,000. As you know, in FY 1990 and FY 1991, as a result of investigations in the Pacific trades, we collected over \$44,000,000 in civil penalties from carrier and cargo interests. Earlier, after conducting the landmark Transatlantic Trade Enforcement Initiative, the Commission, as part of the settlement, collected several million dollars in civil penalty payments, and ensured the establishment of a self-policing program by carriers in that trade. In FY 1994, we will continue to pursue our enforcement goals of obtaining compliance with the Shipping Act of 1984 and helping to create equitable conditions in the U.S. oceanborne trades. I would point out that, inasmuch as some major trades are substantially in compliance as a result of our past efforts, collections in the near future are not expected to achieve the levels of past years. Also contributing to our expectation of lower penalty collections are the residual deterrent effects of our recent enforcement activities, and ongoing industry self-policing programs which the Commission has supported strongly.

As a result of the Shipping Act of 1984, the Commission has the responsibility of reviewing and monitoring certain agreements among ocean common carriers and others involved in the U.S. foreign commerce. One example of the Commission's activity with respect to this mandatory function is our review of the Trans-Atlantic Agreement ("TAA"), which became effective in August of 1992. TAA was formed to implement a rate recovery program in response to

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chronic overcapacity and revenue losses in the U.S./North Europe trade. To monitor the Agreement, the Commission requires TAA to submit detailed quarterly reports on rate activities, changes in service levels and capacity utilization. One focus area is TAA's capacity management program. Based on our monitoring information, the capacity cutbacks implemented so far have not resulted in a shortage of container space. At this time, our monitoring also shows that there is no reason to reconsider our initial position not to seek an injunction against TAA, pursuant to section 6(g) of the 1984 Act. However, we continue to monitor TAA closely to ensure that the carriers' activities do not result in unreasonable rate increases or service reductions.

The Commission recently received a petition from two Danish shippers' associations requesting that the Commission take action against TAA for various alleged violations of the 1984 Act with respect to service contract negotiations. In particular, these petitioners have urged the Commission to seek an injunction pursuant to section 6(g) of the Act. TAA was given an opportunity to reply to the petition. The Commission will be addressing this matter in the very near future.

The Commission also recently issued an advance notice of proposed rulemaking seeking comments on whether it should issue regulations or guidelines that would describe the Commission's enforcement policy with respect to section 6(g). The notice recounts the background and legislative history of section 6(g), describes the Commission's current procedures for evaluating and monitoring agreements, and sets forth a possible guideline. The notice is intended to increase public awareness of the Commission's regulation of agreements under the 1984 Act, and to provide a means by which the ocean transportation industry and shipping public can comment on whether and to what extent section 6(g) methodological guidelines would be helpful. The time for filing expired on February 28, 1994, and the comments received are now being evaluated.

In order to clarify the FMC's existing coloaded rules and to address the many issues raised by the expansive use of coloaded, the FMC issued a proposed rule on coloaded practices. While the statutory scheme envisions that carrier rates be tariffed, the current rules do not require that rates for "coloaded" cargo -- i.e., cargo consolidated by NVOCCs -- be tariffed or otherwise reduced to writing. As a result, increasing amounts of cargo are moving at undisclosed rates. Also, although unanticipated by the FMC when it enacted its current rules, cargo is now commonly regarded by NVOCCs as "coloaded" even when it involves multiple containers, not just cargo combined to fill a single container.

The proposed rule would: (1) redefine the term "coloaded" to limit it to combining of cargo by NVOCCs pursuant to an actual agreement, which must be reduced to writing and made available to the Commission (alternative proposed language would further redefine "coloaded" to exclude full containerload cargo); (2) clarify that where the receiving NVOCC issues its own bill of lading, the cargo is not "coloaded," and must be rated under the tariff; (3) require that the existence of coloaded agreements and the identity of coloaded parties be listed in an NVOCC's tariff; and (4) prohibit coloaded cargo from being carried under a service contract by specifying that only contract signatories and their affiliates are permitted to access service contract rates. Commenters are also requested to submit their views on whether further restrictions should be imposed regarding the applicability of time-volume rates to coloaded cargo, and whether all coloaded, for which non-tariffed rates are assessed, should be prohibited altogether. Comments on the proposed rule are due March 11, 1994.

Some recent press reports indicate a high degree of misunderstanding about the purpose and effect of this proposed rule. In any event, this is only a proposed rule and the Commission will consider all comments before determining whether to take any further action.

Over the last three years, Congress has cut the President's budget for the Commission. The FY 1992 budget request was \$17,974,000, and the final appropriation was \$17,600,000; the FY

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1993 budget request was \$18,800,000, and the final appropriation was \$18,300,000; the FY 1994 budget request was \$19,450,000, and the final appropriation was \$18,900,000. Now, for FY 1995, for the first time, the President's budget is lower than the previous fiscal year's appropriation. Any reduction to the President's FY 1995 budget request would result in severe disruption at the Commission. We would be faced with a decision to either institute agency-wide furloughs, close field offices, and/or permit further attrition to below a level at which the Commission can function properly. Therefore, any further cuts would reduce our ability to provide a credible enforcement program and carry out our other statutory mandates. I ask you to please keep this in mind when considering the President's budget request for the Commission.

We respectfully request favorable consideration of the President's budget so that we may continue to effectively perform our statutory functions in fiscal year 1995.

I will be happy to respond to any questions.

STATEMENT
OF
ALBERT J. HERBERGER
MARITIME ADMINISTRATOR
ON
BEHALF OF
THE
MARITIME ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON MERCHANT MARINE
OF THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
U.S HOUSE OF REPRESENTATIVES
IN SUPPORT OF
FISCAL YEAR 1995 AUTHORIZATION
MARCH 9, 1994

DEPARTMENT OF TRANSPORTATION
STATEMENT OF THE MARITIME ADMINISTRATOR
ALBERT J. HERBERGER
BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE
OF THE
COMMITTEE ON MERCHANT MARINE AND FISHERS
U.S. HOUSE OF REPRESENTATIVES
IN SUPPORT OF FISCAL YEAR 1995 AUTHORIZATION

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to be with you today, to discuss the Maritime Administration's (MARAD) budget authorization request for Fiscal Year 1995.

Our request recognizes the economic and military value of having a fleet of privately owned commercial vessels owned by American citizens, crewed by American civilian seafarers, and

operated in compliance with American safety and environmental standards. It also recognizes the importance of the American shipbuilding industry and furthers the objectives of the President's program to strengthen that industry through the Title XI loan guarantee program.

American merchant ships and American seafarers have always come through for us in times of crisis, during World War II, the Korean conflict, Vietnam, and, most recently, serving with honor in support of the Combined Forces in the Persian Gulf.

With the end of the Cold War, we are shifting from a forward deployment posture with large forces stationed overseas, to power-projection from the United States. Timely sealift is essential to that strategic concept. The American merchant fleet is an important source of sealift for the armed forces.

From an economic perspective, thanks to American-flag carriers, there have been dramatic improvements in ocean transportation in recent years. They have developed the technological innovations such as containerization, double stack rail cars, specialized containers, electronic equipment identification, and satellite tracking that have formed the basis of our nation's expanding intermodal transportation system.

As a result of intermodal transportation pioneered by United States-flag carriers, U.S. manufacturers and the rest of our industrial and agricultural sectors benefit from a seamless transportation system, which means less need for warehouse space, higher inventory capability, and lower chances of costly delays. The American public, as consumers of imports and producers of exports, are the prime beneficiaries of an efficient intermodal system.

Important to our efforts to ensure that we will continue to maintain an American merchant marine is our request for a new Maritime Security Program (MSP) to be funded at \$1 billion over the next ten years.

Mr. Chairman and Members of the Subcommittee, I am pleased to report to you that the Administration has completed its drafting of legislation to implement the MSP and to authorize funding for the other activities of the Maritime Administration. We expect to transmit our proposed bill to you tomorrow.

Next week Secretary Peña and I will be before your Committee to present the Administration's Maritime Security Program legislation and we will be available to answer specific questions for you after you have the opportunity to review the details of the legislation.

I will now briefly outline the Administration's budget request.

Operating-Differential Subsidies (ODS)

For the current operating-differential subsidy program, the Administration is requesting \$214,356,000. As this Committee knows, the current ODS program was established by Congress nearly 60 years ago. (In fact, by this very Committee.) Congress authorized the Maritime Administration to pay the difference between cheaper foreign labor costs and U. S. seafarers' wages. In fiscal year 1995, we expect to pay ODS contract obligations for 38 liner vessels and 24 bulk ships. By 1997 most of the contracts that MARAD has with U.S.-flag carriers will expire.

Operations and Training (O&T)

An authorization of \$77 million is requested for Operations and Training. This request is similar to the annual authorization request for O&T for the last several years. The one significant difference in this year's request is the additional \$1.9 million for research and development, which MARAD has requested for further research into advancements in intermodal transportation and industry competitiveness.

Ready Reserve Force (RRF)

An authorization of \$250 million is requested for this account. The request includes \$246 million for Maintenance and Operations, and \$4 million for Facilities. No funds are requested for acquisitions.

Mr. Chairman, as you will recall, the bill you introduced last year to authorize funding for the Maritime Administration deleted funding for acquisitions and increased funding for maintenance of the RRF. Your bill was passed unanimously by this Subcommittee and the Full Committee. The Administration's proposal for fiscal year 1995 likewise increases funding for RRF maintenance, and we have not requested new acquisition fundings for FY 95. There is \$118 million in fiscal year 1994 funds available for acquisitions for the RRF. We also expect a \$43 million transfer of funds from the Department of Defense for the RRF acquisitions account. The combined funding of \$161 million will be used to purchase RO/RO's in fiscal year 1995. The \$246 million will maintain the RRF ships with test activation work, scheduled maintenance and repairs in U.S. shipyards.

The maintenance and operation account will also provide crews for the RRF ships that are outported in 4-day readiness status, and at a minimum, 2 person retention crews for other ships assigned 5-day readiness. In addition, a key ingredient for timely manning is the enactment of reemployment rights, which I commend the House members for passing last year.

Maritime Guaranteed Loan (Title XI) Program

Within the Administration's budget request for fiscal year 1995 is \$50 million for Title XI loan guarantees. \$4 million is also authorized for administrative expenses. Combined with \$94 million in Title XI funds available in FY 1994, a total of \$144 million in Title XI funds will permit loan guarantees of approximately \$1.5 billion to strengthen America's shipyards and introduce newer more efficient ships into the fleet. This request supports the President's shipbuilding initiative and legislation

enacted last year which extends the Title XI program to cover vessels built for export and some shipyard modernization.

SUMMARY

In summary, the Maritime Administration's FY 1995 budget authorization request reflects the President's commitment to maintaining the status of the United States as a maritime nation.

Our budget maintains funding for maritime education and training, maritime promotional programs, sealift readiness, shipbuilding initiatives, and the continuation of a U.S.-flag fleet.

This concludes my prepared statement. I will be pleased to answer any questions you may have, and I look forward to returning in the near future to discuss in more detail our Maritime Security Program.

STATEMENT OF
GENERAL RONALD R. FOGLEMAN, USAF
COMMANDER IN CHIEF
UNITED STATES TRANSPORTATION COMMAND

BEFORE THE

HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES
MERCHANT MARINE SUBCOMMITTEE

ON THE

AUTHORIZATION OF APPROPRIATIONS
FOR THE
MARITIME ADMINISTRATION (MARAD)

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HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES
MERCHANT MARINE SUBCOMMITTEE

The Defense Transportation System

The United States Transportation Command (USTRANSCOM) and our Components, Military Sealift Command (MSC), Military Traffic Management Command (MTMC), and Air Mobility Command (AMC) provide this nation the core capability for strategic transportation in peace and in war. This joint team, along with our partners in the Department of Transportation and the commercial transportation industry, operate and maintain America's Defense Transportation System (DTS). The DTS is a balanced, intermodal system including sea, air, and land assets and an integrated system composed of military forces, including active duty and reserve components, and the commercial transportation industry.

The responsiveness and flexibility of the DTS was recently demonstrated when fighting erupted in southern Mogadishu in October of last year. Our air mobility team moved light infantry soldiers and a mechanized company with M-1 tanks and Bradley Fighting Vehicles from bases in New York and Georgia direct to Mogadishu. Using four separate aerial refuelings our C-5s flew nonstop to Mogadishu in only 17.5 hours. In addition to these airlift missions, a Fast Sealift Ship carrying the equivalent of 200 C-5 loads made the voyage in only 12 days. In total we moved more than 5,700 soldiers and their equipment from the 24th Infantry Division and the 10th Mountain Division to rapidly reinforce U.S. troops.

Our support of U.S. and U.N. forces in Somalia gained considerable attention in the media; however, it represented only a small portion of

DTS activities during 1993. In the former Yugoslavia we supported the United Nations Protection Force. Ships under charter to MSC delivered 5,000 tons of cargo while AMC coordinated the airlift of more than 1,000 personnel and 150 tons of cargo. We also supported Operations PROVIDE COMFORT (Turkey), PROVIDE TRANSITION (Angola), PROVIDE HOPE (former Soviet Union), U.N. Peacekeeping forces in Cambodia, counter drug missions in Latin America, the JCS exercise program including TEAM SPIRIT (Korea), COBRA GOLD (Thailand) and BRIGHT STAR (Egypt), and relief missions here at home including those in response to the recent earthquake in Southern California. While there was no such thing as a "typical day" during 1993, it was not uncommon for the men and women of USTRANSCOM to operate more than 1,000 air mobility missions and 75 ships and conduct operations in 27 seaports on any given day.

As in these smaller operations, joint exercises, and daily activities, the success of a large-scale deployment depends upon our ability to orchestrate all elements within this complex system. A large-scale deployment, such as DESERT SHIELD/STORM or what is now called a major regional conflict (MRC), can be divided into three major elements: port to port, airlift, and sealift. The first stage of any operation is the movement of people, equipment, and supplies to air and sea ports of embarkation (POEs). Airlift will then deliver the first units to the ports of debarkation (PODs) in theater. In many scenarios, such as JUST CAUSE and DESERT SHIELD/STORM, the only forces that will arrive during the first week will be those delivered by airlift. In the smaller, rapidly unfolding contingencies air mobility will provide the

bulk of our response forces. However, in larger contingencies up to 95 percent of all tonnage will come from the sea.

The sealift operation can further be divided into three phases: afloat prepositioning, surge shipping, and sustainment. During DESERT SHIELD/STORM and RESTORE HOPE the first heavy forces (armored vehicles and heavy artillery) arrived on prepositioned ships. Surge shipping, which is primarily composed of organic ships (government owned) such as the Fast Sealift Ships (FSS) operated by MSC and the Ready Reserve Force (RRF) ships maintained by the Maritime Administration (MARAD), deliver the majority of unit equipment. The third phase, sustainment, begins early in the deployment timetable and carries the "beans and bullets" to the deployed forces. During DESERT SHIELD/STORM the U.S. flag liner industry played a key role in this sustainment lift.

One common thread throughout these air, land, and sealift modes of transportation is our dependence on the commercial sector. During the DESERT SHIELD/STORM deployment virtually all of our surface movements within the continental U.S. (CONUS) were conducted by the commercial sector. In the airlift mode, the commercial sector provided 90 percent of our passenger lift and 30 percent of our cargo tonnage. For sealift the U.S. commercial liner fleet carried 29 percent of all sealift tonnage utilizing a maximum of 30 percent of their slot capacity to serve our sustainment sealift requirements. This is an element of the DTS that will not change. Using America's commercial lift capability--air, land, and sea--to the maximum extent possible will continue to be a cornerstone of our command philosophy.

As we move to a military force primarily based in CONUS, the ability to respond in time of crisis or contingency becomes even more dependent on a flexible and responsive Defense Transportation System--a transportation system that will continue to rely on the commercial sector for the majority of its total lift capability. As the single manager of America's Defense Transportation System, I am obviously concerned about the health and vitality of our nation's transportation industry. America cannot maintain a ready DTS without a healthy transportation industry.

Defense Sealift Requirements

As you know the Department of Defense is reevaluating the transportation requirements of our post Cold War military force. This study, known as the Mobility Requirements Study / Bottom Up Review Update (MRS/BURU), will not be completed until October of this year. Until then I cannot provide specific details of these sealift requirements, but I can provide some general comments.

The vast majority of our early surge requirements (unit deployments) will continue to be met by our Afloat Prepositioned Force, commercial ships under charter to MSC, Fast Sealift Ships, and the Ready Reserve Force. Since DESERT SHIELD/STORM we have added 12 Roll On/Roll Off (RO/RO) ships to the RRF. Funding available from prior years should permit procurement of at least four more this calendar year. Additional funding is required for the final three RO/RO ships to meet the original MRS requirement. In addition, 19 large, medium-speed RO/ROs (LMSRs) are

being added to our organic fleet. Eleven of these ships will be used to meet goals established by the original Mobility Requirements Study for surge sealift, and the remainder will be used for afloat prepositioning. While we are waiting for this prepositioning capability to come on line, we will be using RO/ROs from the RRF on an interim basis. Some of these RRF ships are already on station--all will be in-place by May 94.

Our strategic sealift acquisition program is funneling significant amounts of funds to the shipbuilding industry. Between 1993 and 1999 the National Defense Sealift Fund will provide \$5.8 billion for construction, conversion, and other improvements on our strategic sealift ships. This program will provide many new job opportunities within the maritime industry.

Ready Reserve Force

Readiness within the RRF continues to be a concern. As you know, we used 74 RRF Ships during the DESERT SHIELD/STORM deployment. Once activated, these ships maintained a superb reliability rate and played a critical role during the deployment and sustainment phases delivering 20 percent of the sealift requirement. We used these ships because of their high military utility to carry unit equipment which could not be containerized and carried by liner service. On the other hand, we did experience some problems during activation. When we studied the successes and failures of these activations (approximately 40 percent on time, 40 percent 7 days late, 20 percent 30 or more days late), one

factor emerged as the critical element for predicting reliability: a previous activation for a contingency, exercise or sea trial.

Because the majority of our ships were activated during DESERT SHIELD/STORM, the RRF is today in a relatively high state of readiness. To ensure that fiscal pressures do not degrade this readiness, we are currently examining numerous options that will allow us to maintain the required readiness in the most needed RRF ships. This study of readiness options is just part of the MRS / BURU in which we are examining all aspects of the RRF. First, we will revalidate the proper size and composition needed to meet the post Cold War requirements. Second, we will establish the readiness programs needed to ensure these ships will be capable of on-time activations. Finally, we will reexamine our siting locations to ensure they best meet our customers needs.

While the RRF, FSS, afloat prepositioned forces, and commercial ships under charter to MSC will continue to provide our surge capability, our sustainment operations will continue to be primarily supported by the commercial liner sector. Presently, the U.S. flag commercial fleet contains 260 ships with military utility. These include 22 cargo ships and 88 tankers operating in domestic trade (under the Jones Act) plus 118 dry cargo ships and 32 tankers operating in international trade. Additionally, there are 44 militarily-useful dry cargo ships and 60 militarily-useful tankers in the effective U.S. control (EUSC) fleet. EUSC ships are owned by U.S. citizen companies and registered in nations whose laws do not preclude the U.S. from requisitioning the ships as provided in Section 902 of the Merchant

Marine Act of 1936.. Although DoD would prefer to use U.S. flag ships with U.S. crews, much of the available tanker capacity is in the EUSC fleet.

Military Utility of Liner Vessels

To further enhance our ability to utilize commercial assets and to improve the service we provide the combatant commanders, we are working with the war fighting CINCs and the services to expand the use of containers, intermodal systems, and door-to-door delivery services. In partnership with our Components, the Services, and Department of Transportation, we are developing an Intermodal Installation Program. Later this spring we will identify a major military facility to develop as a prototype for intermodal operations including railheads, loading docks, container handling facilities, and automated tracking systems. This facility will incorporate leading edge technology from the commercial sector.

To help us prepare for the increased use of intermodal systems, we are increasing our use of containers in joint training exercises. During TEAM SPIRIT 93 we booked space on two U.S. Flag container ships to carry the equipment of an entire signal battalion. A total of 296 intermodal container systems, including military flatracks, were used to move the 29th Signal Battalion from Fort Lewis, Wash., to Camp Humphreys, Korea and back. While containerization can be used for some limited unit deployments during exercises, it is not well suited to the rapid deployment of unit equipment. This will remain the primary mission of our organic and chartered fleet. On the other hand,

containerization will become the DoD standard for ammunition and sustainment where the destination infrastructure can support intermodalism.

The commercial maritime industry will therefore play an important role in Defense Transportation System. While I cannot provide you with exact numbers until the MRS/BURU is completed later this year, I can assure you that a healthy maritime industry is vitally important to the readiness of the DTS, and DoD continues to support the industry with its business in peacetime. This year USTRANSCOM will pay approximately \$1 billion to the U.S. maritime industry to provide intermodal and specialized transportation services to DoD.

Industry Partnership

We will continue to refine our requirements for lift from the commercial sector and will update them with the MRS/BURU. In addition, our joint planning initiative will allow us to work closely with industry to solidify these requirements and maximize the use of the diverse commercial intermodal network.

These issues, and others of mutual concern, are currently being reviewed and debated within the public and private sectors of the maritime industry. Through organizations such as the National Defense Transportation Association (NDTA), USTRANSCOM and MARAD meet on a routine basis with maritime industry leaders to discuss issues of common concern. Just last month I hosted a meeting at my headquarters for CEOs

from America's ocean liner transportation industry. This close relationship has laid out the framework for the joint planning we will need to prepare for future operations. This joint planning is critical to the continued success of the DTS.

Aside from our dependence on the commercial sector for sealift capacity, we also rely upon them to provide a pool of skilled mariners to crew the FSS and RRF. The dramatic reduction in the number of ships in the merchant fleet, combined with the reduction in the size of crews due to automation, has reduced the pool of mariners available to crew RRF ships when activated. This problem is further exacerbated by a reduction in the number of mariners with experience in steam power plants and the cargo handling gear on the older RRF ships.

During Operation DESERT SHIELD/STORM, MARAD experienced difficulty fully crewing some RRF ships. While crewing was not the primary reason for any single delayed activation, it was a contributing factor in several activations. The supply of trained and experienced U.S. citizen mariners has been declining steadily since the Vietnam era and has been a readiness concern of USTRANSCOM since the creation of this command in 1987.

While current trends in the U.S. maritime industry make this a difficult problem to solve and one that will likely be the cause for continued concern, a reserve program would provide hope for future improvements. As you know, this program, which will eventually consist of mariners with critical skills, will target former mariners now

employed ashore. These reservists will receive annual training with pay and benefits on RRF ships during activations and sea trials. Obviously I was pleased to see that the House passed the Merchant Marine Reemployment Rights Act last year and hope that the Senate will act quickly on this bill during this session. This bill combined with the benefits of the Maritime Security Fleet will help ensure a continued pool of skilled mariners.

Maritime Security Program

To ensure that ships selected for the Maritime Security Program enhance the readiness of the DTS it will be essential that USTRANSCOM, MSC and MARAD work as a team to identify requirements for the Maritime Security Fleet (MSF). If they are to be useful, these ships must be selected to complement our organic assets and we must ensure availability to meet our deployment timetables. We plan to work closely with DoT and the industry to ensure that the commercial sector can contribute to the full extent possible during times of national emergency.

Legislative Issues

Finally, there are two legislative issues I want to address: cargo preference and the issue of long term leases. In FY93 DoD paid approximately \$530 million in cargo preference differential costs. In FY94 we project payments of approximately \$479 million. Despite these costs, I want to go on record supporting the existing cargo preference

status. I do, however, ask the committee to avoid new types of legislation that would be unduly restrictive, impede military operations, and hinder our ability to operate in a fiscally prudent manner.

I also seek your assistance in repealing the law which restricts DoD from chartering vessels for more than eighteen months. Removing this restriction would be beneficial for ship owners because it would allow DoD to enter into long term commitments which would permit ship owners to engage in long term business planning. It would also save the government money by enabling us to offer prospective contractors longer term charters for their ships, thus obtaining more favorable rates. More importantly, longer term charters may provide the necessary security to induce ship owners to invest in additional tonnage under U.S. flag. This of course, would also provide additional expanded employment opportunities for American Merchant Marines. This legislative proposal is currently contained in Section 3085 of S. 1587, a bill setting forth the Federal Acquisition Streamlining Act of 1993.

In summary, America clearly needs a strong maritime industry to ensure our global commitments can be met in the most efficient manner. The commercial maritime industry has and will continue to play a major role in the Defense Transportation System--a government/industry partnership for national security. The executive and legislative branches of our federal government, working together with the various elements of the maritime industry can and must provide an atmosphere that will foster new growth and vitality in America's merchant marine.

STATEMENT OF THE
PRESIDENTS/SUPERINTENDENTS OF THE
STATE MARITIME ACADEMIES/COLLEGES OF
CALIFORNIA, MAINE, MASSACHUSETTS,
NEW YORK, TEXAS AND THE GREAT LAKES REGION

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON MERCHANT MARINE AND FISHERIES

SUBCOMMITTEE ON MERCHANT MARINE

9 MARCH 1994

We, the Presidents and Superintendents of the State Maritime Academies/Colleges of California, Maine, Massachusetts, New York, Texas, and The Great Lakes Region, appreciate the opportunity to present our comments on the Department of Transportation Maritime Administration's (MarAd) proposed budget for maritime education and training.

We serve a major segment of the transportation industry - the maritime industry. This vast industry is, contrary to many reports, continuing to grow worldwide. Waterborne commerce is, and will continue to be, a necessity.

The State Maritime Academy System is a cost effective investment in education, jobs, and our Nation's waterborne commerce. We are the prime recruiters, trainers, and educators for the total Maritime Industry. We are meeting President Clinton's education and training objectives by providing worker training in all segments of the industry.

As contained in the Maritime Education and Training Act of 1980 and its predecessor Acts, our Nation's State Maritime Academies, with minimum Federal assistance, provide education and training for jobs afloat and ashore in the Maritime Industry. Under this system the Federal Government joins with the States and students in sharing costs.

We provide licensed officers for the deep sea fleet, the inland waterways, Great Lakes, tug and barge, coastal and off-shore supply. Ashore our graduates work in every facet of the industry ranging from ship design to shipbuilding and repair to marine insurance, brokering, chartering, freight forwarding, Port Authorities, intermodal and container operations, admiralty law, environmental protection, oil spill response and on and on. We have expanded our curriculums to include the marine environment, oil spill response, etc. The opportunities for jobs are vast and diversified! We are developing the work force of the future.

Two of our training ships are dual purposed as troopships in the RRF. Expenses are cost effectively shared by the States and Cadets (students). New York's training ship EMPIRE STATE was recently activated as a troopship and is presently ferrying troops from Mogadishu, Somalia to Mombasa, Kenya. On a related issue we strongly urge your support for replacement of California's training ship, the last in the inventory to be replaced. This ship, built in 1939, is older than the NDRF ships currently being scrapped. Her continued useful service will necessarily soon come to a close.

The State Maritime Academies, even during these recessionary times, have provided America's young men and women a first class education with over 90% job placement a few months after graduation. Our cost-effective method of training is vital to ensure that our Cadets meet the stringent requirements of Coast Guard safety regulations, The Oil Pollution Act of 1990, International Maritime Organization Standards of Training, Certification and Watchkeeping, the Water Resources Development Act of 1990, and the National Transportation Policy during a time of great environmental sensitivity. Your support has further allowed the State Maritime Academies to adjust to changing times and to initiate new courses of study providing a trained manpower pool which fills jobs in growth areas of the maritime industry such as environmental training, contingency planning, maritime management and marine medicine. In an era when jobs are critical, your support has been an investment in people, employment and income. It is a commitment to opportunity, an investment in tomorrow.

The State Maritime Academy concept, carefully crafted by the Congress, ranging from the training ship-troopship concept to

shared training and education expenses, is the most cost-effective Federal program today.

We fundamentally support the President's budget. However, we are deeply concerned that this year the budget does not contain \$1.2 million funding for marine simulators as has been previously authorized and appropriated. Marine simulators, such as bridge, liquid loading and diesel, allow us to take maximum advantage of technology. Also, they must continue to be updated. These simulators improve our way of learning. Clearly other maritime nations understand this as they are already ahead of us in this regard. As a Nation, with your help, we were gaining on this issue but without assistance, we will, again, fall behind.

We are also concerned that the Office of Management and Budget has earmarked for removal the language which allows for the funding for facility and ship maintenance, modernization and repair, acquisition of equipment and fuel costs from the proceeds of the disposal of NDRF ships. Following on from the language provided by the Congress the last three years we strongly recommend that this committee, as a continued investment in America's security and the Maritime Industry, restore the language bracketed for removal and thus commit the funds generated from the disposal of NDRF ships to support the special needs of the State and Federal Maritime Academies. What better way is there to use these funds than for the education and training of our Nation's youth aspiring to jobs in the maritime industry?

Our most pressing need is funding assistance for training ship fuel. We collectively require \$1 million in fuel assistance each year. Lack of fuel funding assistance will impact on our ability to graduate the majority of our Nation's licensed officers. Although Section 1304(c)(2) of the 1980 Federal Maritime Education and Training Act authorizes MarAd to provide fuel funding, it has taken special language on an annual basis for MarAd to do so.

Congress met this need the last three years by making funds available that were derived from the sale of obsolete vessels in the National Defense Reserve Fleet (NDRF) and during Desert Storm by adding an Emergency Supplemental that allowed the Maritime Administration to offset fuel costs from unspecified funding available in our budget lines. We ask that this language be continued as a permanent change to the Maritime Education and Training Act of 1980 Public Law 96-453 as amended.

We want to express our concern in regard to the 1990 Maritime Administration Authorization Act which amended Title XIII of the Merchant Marine Act of 1936, to require that as a condition for any school to receive any Federal payment or use of any Government vessel, the schools agree in writing to require as a condition for graduation that graduates pass the U.S. Coast Guard licensing examination. This runs totally counter to State's Rights guarantees and the operation of academic institutions throughout our Nation.

The U.S. Coast Guard requires successful completion of our curricula and sea time to sit for the Merchant Marine Officer's license. On the other hand, all academic institutions require successful completion of courses and training to receive a diploma. There is no guarantee that completion of our curricula will guarantee a license just as there is no guarantee that receipt of a diploma from law school will guarantee passing of the bar exam or a diploma from medical school will ensure licensing of a doctor. There is no question other colleges and universities receiving Federal aid are not tied to similar requirements. In reality, less than five graduates each year do not take and pass the license exam. This new requirement will not increase the number of mariners that graduate; in fact, along

with the license fees noted below, quite the opposite will likely occur. The impact will be on recruiting at a time when the predicted mariner shortfalls are coming true and the available pool of qualified high school graduates is at an all-time low.

We are also very concerned about the impact of the recent rulemaking for USER FEES FOR MARINE LICENSING, CERTIFICATION OF REGISTRY AND MERCHANT MARINER DOCUMENTATION. We strongly oppose such fees as pertains to our Cadets in obtaining entry-level licenses, merchant mariner documents including lifeboatman as well as other required endorsements. These fees will be detrimental to and severely reduce our input of entry-level officers to our Nation's Merchant Marine.

Section 2110, Title 46 USC, as amended by The Omnibus Tax Reconciliation Act of 1990 (the source of this U.S. Coast Guard action) allows "adjustment of fees to accommodate changes in the cost of providing the services" associated with mariner documentation and licensing. The rulemaking states that the Coast Guard will "revise these proposed fees when costs change due to ... the way services are provided." (Emphasis added)

On this basis, it should be noted that the administrative costs to the Coast Guard of qualifying and testing State Academy Cadets are greatly reduced through the work done by the Academy staffs - we conduct the required education and evaluate and prepare all documentation in support of both the Cadet Merchant Mariner Documents and the License Applications. Also, we provide suitable rooms to administer the examinations to large groups of Cadets - all of which are clearly less costly to the Coast Guard than examining individuals or small groups at the Regional Examining Centers. The Coast Guard is paid for the license evaluation yet we do all the work!

Finally, Section 2110 also allows exemption of certain persons from fees "if in the public interest." We submit that it is in the public interest to waive or reduce this fee for Cadets to ensure a healthy input of young men and women into our Nation's Merchant Marine, an industry which is required for our national commerce and security.

We strongly believe that it is unconscionable on one hand for the Federal Government to mandate to young men and women attending State educational institutions who pay for an education which clearly supports our national security to take and pass a license examination and then, on the other hand, charge them an exorbitant fee - of almost \$500 - to take it. In essence, the user fee is a graduation fee which is exorbitant in relation to an entry-level Cadet's income history. Once licensed our graduates are capable of paying a user fee to upgrade or renew their licenses.

This is one more Federal fee or regulation that impacts on our Nation's attempts to maintain a competitive Merchant Marine.

We strongly recommend that the user fees be waived or inverted for all State and Federal Maritime Academy Cadets and Midshipmen for their original/entry-level license and/or documents. By inverting the fee, officers upgrading or renewing their license would pay more, thus, making up the differential created by lowering the fee for entry-level licenses. As a bare minimum the license evaluation fee should be waived.

Under the 1980 Federal Maritime Education and Training Act, the Federal Government provides funding to the State Maritime Academies for:

1. A training ship plus ship's maintenance/repair and fuel money when authorized (Great Lakes excluded) to allow our Cadets to meet the Federally mandated "sea time" license requirements.

2. \$100 thousand per school for administration of a State Nautical School and up to \$200 thousand for regional schools, i.e., Great Lakes.

3. Student Incentive Payments (\$250/month) for students accepting commissions in the U.S. Naval Reserve/Merchant Marine Reserve.

In terms of Federal expenditures, the State Maritime Academy system is our Nation's most cost-effective system to produce licensed officers, officers already noted by experience to be in short supply, a supply predicted to become very short in the outyears.

So that we may cost-effectively continue to serve and provide an educated and trained labor pool for our Nation, we request:

1. In addition to the necessary expenses of operation and training activities, continuation of the authorization of \$1.2 million for payments to State Maritime Academies to acquire and upgrade maritime training simulators and thus meet new Federal and International requirements.

2. Restitution of the language in the President's Budget recommended for deletion by the Office of Management and Budget regarding the use of proceeds derived from the sale and disposal of National Defense Reserve Fleet Vessels for facility and ship maintenance, modernization and repair, acquisition of equipment and fuel costs necessary to maintain training at the Federal and State Maritime Academies.

3. Authorization of a permanent change of language in the Code of Federal Regulations Vol 46 Sub part A 310.4(e)(2)(iv) - the Maritime Education and Training Act - to allow the Maritime Administration to offset training ship fuel costs from unspecified funding available in our budget lines. As a minimum, \$1 million is required.

4. Relief from the new user license fee for students at the State and Federal Maritime Academies and the recent amendment to the Merchant Marine Act of 1936 which requires, as a condition to graduation, that graduates pass the U.S. Coast Guard licensing examination. It is unconscionable for the Federal Government to dictate graduation requirements to a State educational institution, i.e., pass a license examination, and then charge the students a "graduation fee" of almost \$500 to meet this requirement.

We appreciate your past support and trust and hope that we may continue to receive it in the future. We want to continue to provide high quality jobs by meeting the requirements of our Nation's Maritime Industry, the recently ratified IMO-STCW standards, the National Transportation Act, the Water Resources Development Act of 1990, and the Oil Pollution Act of 1990. We want to continue to be a cost-effective contributor to our Nation's economy and security. We want to continue to provide young men and women the skills to hold productive jobs in our Nation's Maritime Industry and thereby contribute to its economy. We must continue to provide hope to our students in the near term and at the same time prepare them to meet the needs of tomorrow.

We would be pleased to assist you in any studies you may wish to undertake with regard to the matters we have raised and would be happy to have the opportunity to discuss our situation with you and your staff at your convenience. We trust you will give our requests and our views your favorable consideration.

ENROLLMENT FOR PAST SIX YEARS BY CLASS
LICENSE PROGRAMS ONLY

	4/c	3/c	2/c	1/c	Total
MASSACHUSETTS					
87/88	159	141	133	142	575
88/89	187	149	138	127	601
89/90	192	154	137	123	606
90/91	180	169	118	118	585
91/92	243	165	151	113	672
92/93	234	181	150	131	696
93/94	238	205	167	140	750

GREAT LAKES

87/88		23	14	19	56
88/89		32	16	11	59
89/90		37	14	17	68
90/91		52	24	17	93
91/92		48	29	24	101
92/93		31	29	25	85
93/94		41	19	24	84

NEW YORK

87/88	251	164	147	184	746
88/89	237	184	132	149	702
89/90	176	169	151	144	640
90/91	206	138	150	169	663
91/92	231	167	108	173	679
92/93	245	180	159	134	718
93/94	198	189	148	185	720

CALIFORNIA

87/88	118	74	87	77	356
88/89	111	90	85	89	375
89/90	146	91	87	86	410
90/91	153	97	89	79	418
91/92	135	124	97	98	454
92/93	160	106	126	104	496
93/94	117	109	112	147	485

MAINE

87/88	118	99	106	117	440
88/89	192	91	94	107	484
89/90	164	148	85	90	487
90/91	147	102	126	85	465
91/92	155	131	102	129	518
92/93	150	142	131	99	522
93/94	134	133	118	123	508

TEXAS

87/88	29	8	16	32	76
88/89	58	23	8	19	108
89/90	64	42	15	10	131
90/91	86	51	32	13	182
91/92	73	66	41	32	212
92/93	75	57	60	41	233
93/94	52	56	37	51	196

TOTAL CADET POPULATION

1993

2,743

STATE SCHOOL GRADUATES

	Class of 1988		Class of 1989		Class of 1990		Class of 1991		Class of 1992		Class of 1993							
	Sub.	Non-Sub.	Grads	Sub.	Non-Sub.	Grads	Sub.	Non-Sub.	Grads	Sub.	Non-Sub.	Grads						
CA	35	38	73	28	51	79	19	41	60	20	49	69	18	61	79	12	53	65
ME	38	67	105	20	70	90	12	75	87	16	65	81	32	97	129	34	87	121
MA	38	105	143	25	102	127	22	97	119	30	89	119	12	111	123	23	118	141
NY	45	117	162	51	83	134	26	94	120	26	113	139	26	105	131	13	76	89
TX	12	13	25	9	6	15	8	1	9	7	6	13	12	18	30	11	21	32
GL	0	18	18	0	8	8	2	8	10	0	13	13	0	21	21	2	15	17
	168	358	526	192	323	483	89	316	405	99	335	434	97	398	491	95	370	465

PERCENTAGE SIP TO TOTAL GRADUATES

32%	39%	22%	23%	20%	26%
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FOUR YEAR COST PER STUDENT ENROLLED FOR STUDENT GRADUATING IN 1993

	SIP Student Costs	(a) Non-SIP Student Costs	(b) State Costs	(c) Federal Cost Non-SIP Student	(d) Federal Cost SIP Student
NY	28,101	32,901	34,686	9,890	14,690
MA	14,482	19,282	48,849	8,938	13,738
ME	32,840	37,640	9,871	6,101	10,901
TX	23,210	28,010	25,939	2,896	37,696
CA	17,582	22,382	67,317	12,192	16,992
GL*	18,174	21,774	7,959	7,143	10,743

Total Federal
Cost to Educate

KP** \$91,000

(a) Includes cumulative tuition, room and board, uniforms, required fees.
The figure is \$4,800 less for individuals receiving SIP.

(b) Does not include capital improvement or construction.

(c) Includes cumulative ship M&R, ship fuel, and \$100,000 grant.

(d) Includes cumulative ship M&R, ship fuel, \$100,000 grant and SIP.

* Three year program. No Federal cost for ship M&R or fuel.

** 1993 figure supplied by the Maritime Administration.

CLASS OF 1993 GRADUATES
STUDENT INCENTIVE PAYMENT PROGRAM

	CA	ME	MA	NY	TX	GL
<u>ENTERING FRESHMAN CLASS*</u>	109	163	188	172	21	42
<u>STUDENT INCENTIVE PAYMENT PROGRAM:</u>						
Students Accepting SIP	85	110	109	137	16	2
Resignations	7	6	12	13	1	0
Disenrollments	4	15	10	40	7	0
NROTC	0	8	0	4	N/A	N/A
Students withdrawing from SIP program but staying in school	45	41	61	57	2	0
(Diff) Set-backs, upgrades, transfers	16	8	14	10	0	0
TOTAL SIP GRADUATES	13	32	12	13	7	2
Percentage of SIP dropouts	58%	71%	73%	91%	63%	0%

Calculated as follows:

(Resignations+Disenrollments+Withdrawals) - (Setbacks/Upgrades)

Students Accepting SIP - (Setbacks/Upgrades)

This assumes NROTC numbers not included anywhere else in the numbers.

*This figure does not include foreign students.

STATE MARITIME ACADEMY SIP

Entering Year	1990		1991		1992		1993		1994		1995		1996	
	Allot- ted	Signed up	Allot- ted	Signed up	Allot- ted	Signed up	Allot- ted	Signed up	Allot- ted	Signed up	Allot- ted	Signed up	Allot- ted	Signed up
NY	140	140	140	157	140	162	140	137	140	63	140	61	40	29*
ME	112	105	112	112	112	112	112	107	112	85	112	71	26	46
TX	38	28	38	26	38	47	45	45	38	37	38	31	12	13
CA	80	78	80	91	80	85	87	80	80	12	80	24	21	16
MA	106	106	110	95	110	100	110	110	112	24	112	44	25	13
GL	45	2	45	2	45	6	45	12	45	2	45	2	5	2

NOTE: Not indicated non-eligible, i.e., NROTC, foreign students, not physically qualified.

*2 Cadets in pending status not included in this figure

STATE MARITIME SCHOOLSEMPLOYMENT DATA

	Afloat Employment (1) (includes deep sea and domestic shipping)	Maritime Related Ashore	Non-Maritime Ashore	Navy Coast Guard	Other*	Total (2)
Class of 1985	217 (40.2%)	176 (24%)	125 (17%)	75 (10%)	68 (9%)	741
Class of 1986	277 (39%)	151 (22%)	132 (19%)	77 (11%)	65 (9%)	702
Class of 1987	292 (48%)	114 (19%)	88 (14%)	78 (12%)	40 (7%)	612
Class of 1988	245 (50%)	92 (19%)	71 (14.1%)	54 (11%)	31 (6%)	493
Class of 1989	235 (56.5%)	60 (15.8%)	55 (13.2%)	48 (11.5%)	13 (3%)	417
Class of 1990	235 (63.5%)	57 (15.4%)	38 (10.3%)	34 (9.2%)	6 (1.6%)	370
Class of 1991	210 (75.2%)	42 (10.2%)	9 (2.2%)	35 (8.5%)	16 (3.9%)	412
Class of 1992	245 (56%)	69 (15.8%)	41 (9.2%)	35 (8.0%)	48 (11.0%)	438 (74% of total grads)
K.P. Class of 1992	46 (30%)	51 (35%)	None	23 (15%)	33 (20%)	153 (26% of total grads)

(1) Of graduates employed at sea - State Academies 84%, K.P. 16%.

(2) Foreign students not included for New York.

* Includes those attending graduate school, undecided and unemployed.

Source: State Maritime Academies and Maritime Administration

STATE MARITIME ACADEMY FUEL COSTS
(IN THOUSANDS OF DOLLARS)

	<u>1987</u>			<u>1988</u>			<u>1989</u>			<u>1990</u>			<u>1991</u>			<u>1992</u>			<u>1993</u>		
	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>	<u>Cost</u>	<u>Bbl</u>	<u>\$/Bbl</u>
NY	301.8	13.6	22.11	241.4	14.1	17.08	188.8	15.7	18.38	400.6	17.7	22.56	323.5	16.2	20.0	258.4	15.2	17.0			
ME	288.8	10.9	21.00	190.0	11.0	17.25	214.2	19.6	10.93	188.9	12.9	14.68	214.9	11.1	19.36	212.2	11.8	17.98			
TX	198.5	10.2	19.20	176.2	13.1	13.45	88.8	13.2	14.30	210.8	14.1	15.00	220.0	10.0	22.00	231.8	15.5	15.0			
CA	239.5	15.1	15.91	236.8	15.0	15.75	202.3	14.2	14.20	271.2	14.5	18.74	213.1	7.3	29.22	173.0	13.0	21.0			
MA	192.8	9.2	20.95	331.5	18.2	18.22	340.1	17.6	19.30	186.8	*10.2	18.32	335.0	*16.0	21.00	298.0	*14.2	21.0			
TOTAL																					
COST/YR	1.161			1.176			1.234			1.195			1.384			1.065			1.087		

* Mass Maritime 45 day training voyage.

STATE SCHOOLSHIP PROGRAM
(\$ IN THOUSANDS)

<u>Schoolship</u>	<u>FY'88</u>	<u>FY'89</u>	<u>FY'90</u>	<u>FY'91</u>	<u>FY'92</u>	<u>FY'93</u>	<u>FY'94</u>
STATE OF MAINE	768	591	1,117	997	1,143	1,386	660
PATRIOT STATE	1,366	1,581	889	1,801	1,296	1,904	1,950
EMPIRE STATE	0	19,378 A/	2,202	1,133	1,817	1,164	1,100
GOLDEN BEAR	1,093	1,179	849	1,025	530	366	1,200
TEXAS CLIPPER	1,649	752	950	940	1,300	1,119	1,200
TOTAL	4,876	23,481	6,007	5,896	6,086	5,939	6,110

A/ In addition, the Navy provided reimbursable funds in the amount of \$1.7 million.

March 9, 1994

United States Merchant Marine Academy

MIDSHIPMEN'S COMMITMENTS OF SERVICE TO THE NATION

It is not a free ride. Graduates make commitments that span at least 12 years.

In return for their education, midshipmen make the following service commitments to the nation:

A 4-year commitment to graduate -

Upon entering the Academy, midshipmen make a commitment to complete the 4-year course of study which includes one year of training at sea on commercial merchant ships;

A 5-year commitment to serve in the maritime industry -

Graduates must work as officers on U.S.-flag vessels or in a maritime related industry or profession ashore. Graduates can also serve as active duty commissioned officers in the U.S. Navy or other armed force of the United States;

A 6-year commitment to maintain their ship officer's license -

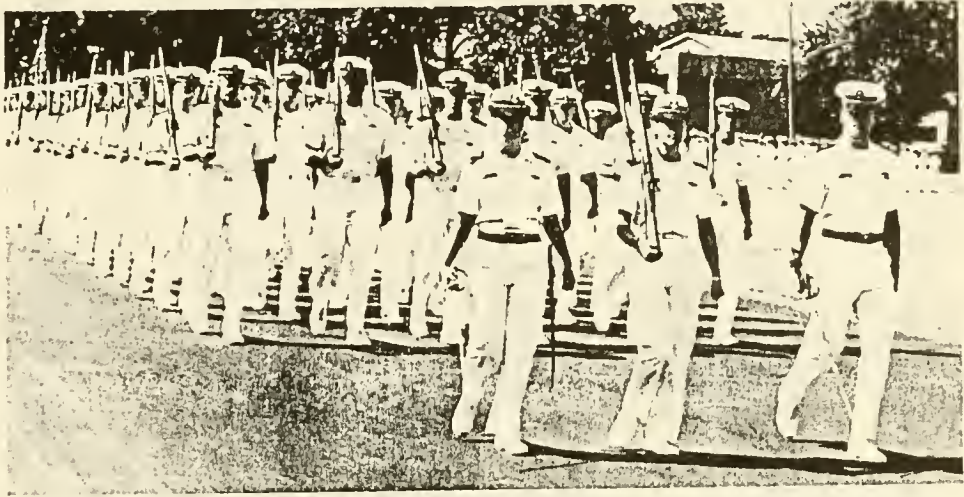
Since this U.S. Coast Guard issued license expires after five years, by renewing the license, graduates are qualified to serve as a merchant ship's officer for at least ten years after graduation, if not longer; and

An 8-year commitment to the United States Naval Reserve -

Graduates enter a reserve program specifically designed to ensure coordination between merchant vessels and the armed forces during a national emergency. Regardless of the graduate's desires, he or she can be called to active duty service at any time during this 8-year period. Thus the 12-year commitment which starts upon entering the Academy and continues at least 8 years after graduation.

U.S. MERCHANT MARINE ACADEMY

TRAINING FOR LEADERSHIP



A finding based on Standard and Poor's report about the education of Senior Managers in America puts the USMMA among the Top 25 colleges which have produced Presidents, Vice-Presidents and Directors of U.S. Companies, in proportion to their number of graduates.

THE TOP 25 SCHOOLS ON THIS LIST ARE:

- | | |
|---------------------------------------|---|
| 1. Yale University | 14. John Hopkins University |
| 2. Princeton University | 15. Illinois Institute of Technology |
| 3. Harvard University | ➡ 16. U.S. Merchant Marine Academy |
| 4. Dartmouth College | 17. Case Western Reserve Academy |
| 5. Williams College | 18. New York University |
| 6. Amherst College | 19. Webb Institute of Naval Architecture |
| 7. MIT | 20. Stevens Institute of Technology |
| 8. Washington and Lee University | 21. Bowdoin College |
| 9. California Institute of Technology | 22. Davidson College |
| 10. Cornell University | 23. Virginia Military Institute |
| 11. Columbia University | 24. General Motors Institute |
| 12. University of Pennsylvania | 25. Stanford University |
| 13. University of Chicago | |

OUR GRADUATES EXCEL!

STATEMENT

by

Harold Brauner, President

NATIONAL CUSTOMS BROKERS AND FORWARDERS ASSOCIATION

to the

Subcommittee on Merchant Marine
Merchant Marine and Fisheries Committee
United States House of Representatives

RE: H.R. 56 -- Freight Forwarder Compensation Bill

Mr. Chairman and Members of the Subcommittee:

The National Customs Brokers and Forwarders Association of America (NCBFAA) supports the actions of Representative Helen Bentley to amend H.R. 56 to the FMC authorization bill. H.R. 56 is noncontroversial legislation that would correct a past inequity that has troubled the freight forwarding community.

An "independent action" provision was passed in the Tax Reform Act of 1986. It was an important first step in protecting hundreds of ocean freight forwarding companies and thousands of their employees throughout the United States and in establishing a more competitive climate in the export trade arena. Specifically, the provision: (1) established a minimum rate which steamship conferences acting in concert must pay U.S freight forwarders; and, (2) permitted individual steamship lines to negotiate compensation with freight forwarders.

Nevertheless, due to the jurisdictional lines of the committees involved in the passage of this provision, the wording of the measure limits its application to ocean freight forwarders who are also customs brokers. This therefore created a distinction between ocean freight forwarders who are customs brokers and those who are not.

Unfortunately, it makes little sense to forwarders who are not customs brokers. One can perform the export-oriented functions of ocean freight forwarding without having the slightest knowledge of or connection to the import-oriented services of a customs broker. In all practicality, the one has little to do with the other. Regardless of their name, each provides virtually identical ocean freight forwarding services and should be compensated in the same manner. H.R. 56 effectively eliminates the distinction, creating a more fair and consistent regulatory approach.

It is long past time to correct this incongruity. There is no reason not to include all freight forwarders irrespective of whether they are also customs brokers. The NCBFAA appreciates your consideration of this matter and urges you to join us in supporting Representative Bentley's request to amend the FMC authorization bill.

Lawmaker to Study Military Shipment For Adherence to Cargo-Preference Law

By TIM SANSBURY

Journal of Commerce Staff

WASHINGTON — Rep. Helen Delich Bentley, R-Md., told the Navy's Military Sealift Command and the Maritime Administration that she's watching an upcoming military assistance shipment for Greece to make sure cargo-preference requirements are observed.

The congresswoman wants to ensure that U.S.-flag operators get a chance to transport 25,000 tons of munitions bound sometime this quarter from northern Europe to Greece. She wants to pre-empt any attempt by the Defense Department to move the cargo on its own ships without seeking bids from the industry.

Under U.S. cargo preference law, military cargoes are required to be carried on U.S.-flag ships except when commercial ships are not available. Rep. Bentley said the pre-emptive action she's taking is necessitated by the Pentagon's failure to heed the law.

"I and many others in the Congress have received numerous complaints from the U.S.-flag maritime community about the (sealift command's) attempts to divert military foreign assistance cargoes to Navy-owned ships and bottoms under the sealift command's control, the congresswoman said in a Feb. 7 letter to Vice Adm. Michael Kalleres, commander of the sealift command.

She sought a commitment from the admiral that the scheduled munitions delivery to Greece and similar cargoes be properly offered to the U.S. commercial fleet.

Rep. Bentley, a member of the House Merchant Marine and Fisheries Committee, also asked to receive a copy of the public invitation for bidding on the munitions cargo.

Marge Holtz, a spokeswoman for the sealift command, said Rep. Bentley's letter was under review and that a response would be sent soon.

Rep. Bentley said in a letter to

Albert Herberger, Marad administrator, there have been "numerous occasions in the past where (the sealift command) did not properly address the privately owned U.S.-flag commercial vessel preference requirements of Marad."

She stressed Marad's responsibility for ensuring that cargo-preference laws are carried out and asked Mr. Herberger to inform Adm. Kalleres in a letter of Marad's authority over the cargo preference program.

A comment could not be obtained from Marad at press time Tuesday.

Industry insiders said a brief but sharp exchange occurred between senior government officials over cargo-preference diversions at a recent military transportation meeting in St. Louis.

The military's proclivity for skirting cargo-preference requirements also is raised by maritime lobbyists fighting against a trial or "pilot" program proposed by the Defense Department under which waivers to cargo preference would be allowed.

STATEMENT OF
FRED S. SHERMAN
PRESIDENT, PROJECT ACTA, INC.

BEFORE THE
COMMITTEE ON MERCHANT MARINE & FISHERIES
SUBCOMMITTEE ON MERCHANT MARINE
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 9, 1994

Thank you for the opportunity to speak to you today about the U.S. Merchant Marine Academy and its funding in the future.

When the National Performance Review was issued, the United States Merchant Marine Academy Alumni Association recognized that an education process would be required if the Academy was to exist and continue to serve the nation. They asked me to head-up this effort as president of Project Acta.

Watching the recent Olympics, an analogy came to mind between Kings Point and one of the advertisers, an insurance company which calls itself "the quiet company". The United States Merchant Marine Academy is "a quiet institution". It remains the leading maritime transportation educational institution in the world, but not many people know about it. And, it gets the job done quietly for the nation at a very modest investment.

Project Acta's mission is to "Support the United States Merchant Marine Academy, the U.S. Merchant Marine, and the Nation's Security". The motto of the Academy is "Acta Non Verba" - "Acts Not Words". Consequently, the organization's name identifies with the strengths where our graduates excel. Action for the benefit of the nation! Project Acta is a totally separate organization from the Academy. Our constituency includes not only graduates and the maritime industry, but also the parents and the many friends of the Academy.

PURPOSE OF APPEARING

The reason we asked to appear before you today is twofold. First, to thank this Subcommittee for the support you have shown to Kings Point over the years and most recently by unanimously approving the amendment to the NPR bill, HR 3400, deleting the tuition provision. We also very much appreciate your support for HR 3293, Representative Ackerman's bill to prohibit the charging of tuition at all five federal academies, which many of you have co-sponsored. (There were 50 co-sponsors on March 4th.) We hope more will join in co-sponsoring this bill and help enact it into law.

The second reason for coming before you is to express our grave concern, which I believe many of you share, about the Administration's persistence in pursuing a tuition requirement.

Notwithstanding this Committee's unanimous vote to delete tuition at the Academy from HR 3400 and the adoption of this amended bill by the full House, the President's budget states that "beginning in September 1995 (fiscal year 1996), tuition fees will be phased in with each entering class, in order to reduce the Federal spending for the U.S. Merchant Marine Academy by half. Estimated fees are \$3.3 million for fiscal year 1996, increasing to \$13.0 million for fiscal year 1999."

CONSEQUENCES OF TUITION

I do not think many recognize how this ill-advised tuition recommendation has hurt the efforts to attract capable young men and women to serve the nation through attending and graduating from Kings Point.

When the National Performance Review's recommendation to charge tuition at the Academy first spread over the wire services, almost immediately applications for admission started to decline. By November they had fallen about 25% below the previous year. Although requests for admissions have come back to about 5% below a year ago, the quality of the applicants is lower and the number accepting admission is still behind this time last year. The end result is that the Academy will not know what the true effect will be until the class of 1998 reports in July.

Unfortunately, the tuition issue continues to create uncertainty undermining the Academy's mission. If Congress does not assert itself, the world will properly conclude that the United States really does not believe it needs an American merchant marine with the best trained officers in the world.

Charging tuition at the Academy raises many associated problems which have not been considered by the NPR.

Recruiting

Tuition will of course hurt recruiting by reducing the numbers of deserving and capable young men and women attending, now given the uncertainty of the Academy's future.

Accreditation

Tuition will raise accreditation questions, namely whether a degree can still be granted.

Diversity

Tuition will produce negative results on diversity - particularly if you and your colleagues are no longer able to nominate candidates who provide geographic as well as gender, ethnic, and economic diversity.

Obligation

Tuition will undermine the service obligation which benefits the nation as a result of its educational investment in promising Midshipmen who want to learn a profession and in return will obligate themselves to government service. (Attached is a listing of the commitments Midshipmen make.)

There is no question that if this tuition-course is maintained, the good ship "Kings Point" will hit the shoal, flounder and sink.

Most students who attend the Academy have high SAT scores and can qualify for scholarships at other institutions. Why then would they choose to go to the U.S. Merchant Marine Academy, pay \$15,000 per year tuition (plus current fees which total \$7,000 over four years), have some sort of "obligation", and also live in that never-never-world of not knowing what the government might do next? Would you advise your children or grandchildren to undertake such a risky educational environment at the start of their mature life? Most of you I think would say no. Consequently, you can see why the quality of the applicants is tending down. You can also appreciate how fewer young people will be interested in Kings Point, and consequently the tuition issue will force the demise of the institution.

The sooner this issue can be favorably resolved, the better it will be for the Academy and the nation.

INCONSISTENCIES OF NPR RECOMMENDATION

Counters The Need For Seafarers

William A. O'Neil, the secretary-general of the International Maritime Organization, recently gave a talk in New York in which he stated that there would be a shortage worldwide of seafarers on the order of 325,000 persons by the end of this decade. Also he stated that the qualifications of those trying to fill this gap will be highly suspect. In light of what the IMO is projecting, doesn't it seem truly ill-advised to take an action today which will mean the death of the institution which is the world leader in maritime training and education? A world shortage of seafarers will contribute to making American mariners more competitive, if they are well trained.

Counters Current Maritime Reform

Other inconsistencies also seem apparent. As the nation is trying to revitalize the U.S.-flag fleet, should it at the same time be planning to take an action which says we do not need the

qualified personnel to man these ships? Desert Shield/Desert Storm showed that we may have had enough ships, but did we have the people to man them? We did not! Many ships sailed without a full complement. We were so short of qualified seafarers that a group of senior citizens came out of retirement to answer the call. Also with ships becoming more sophisticated, with crew sizes being reduced, with time in port being diminished, and with environmental safety and protection receiving its proper attention, should we as a nation reduce the availability of the best trained vessel personnel in the world? I think all of you would join me in saying no!

Counters Administration's Education Goals

Taking a course of action which will lead to the closure of Kings Point is another inconsistency as President Clinton appropriately calls the nation's attention to the need for education. As he stated last year in his remarks to Boeing employees, "We need a commitment to meet the competition around the world in a global economy in which the things that really pay off are high levels of education"

KINGS POINT IS "MODEL" FOR NATIONAL SERVICE ACT

The Administration has proposed a National Service Act tying federally funded education to public service. Yet the NPR recommended cutting funding and charging tuition at Kings Point. Doesn't this seem inconsistent? An institution which is the epitome of what the President is proposing will likely go out of existence at the same time a "new plan" is being proposed which parallels what the Academy is already doing so well.

The United States Merchant Marine Academy for the past 50 years has exemplified the Administration's new "school to work" philosophy. The Academy is focused on the future, preparing young Americans to meet the challenge of change in global competition.

VALUE OF ACADEMY GRADUATES UNKNOWN TO MANY

Some have been lead to believe that the United States Merchant Marine Academy is educating young people for jobs that do not exist. However, those critics do not recognize what the nation gets from the Academy education. To graduate, a Midshipman must obtain a U.S. Coast Guard officer's license as either a Third Mate or Third Assistant Engineer. In addition, all graduates must become commissioned officers in the U.S. Naval Reserve (or other armed service). Further, they must earn a Baccalaureate Degree and complete prior to graduation one year of practical shipboard training in the real world of commercial shipping. Kings Pointers on graduation can "hit the deck running", able to stand a watch on a merchant ship or a U.S. Navy vessel.

That is why, in what is considered a depressed job market and a declining maritime industry, 96% of the last graduating class are employed in the industry. 56% are sailing on U.S.-flag ships or in the military and the remaining 40% are employed in the maritime industry ashore. I think most colleges would like to have that record for their graduates finding positions in their chosen profession.

MIDSHIPMEN TRAINED TO BE LEADERS OF THE NATION

And it is not only what the last class has done, but it is what the education at Kings Point has done over the past 50 years in nurturing future leaders of the nation. Based on Standard & Poor's Register data, the United States Merchant Marine Academy ranks 16th of all U.S. colleges in percentage of graduates holding executive positions in U.S. industries (see attached listing of the top colleges in the nation). In both the 1985 study as well as the 1990 examination, Kings Point ranked 16th.

THE MARITIME INDUSTRY HAS CHANGED

As you well know the maritime industry has changed in recent years. When I graduated from Kings Point, a shipping company had ships and focused only on getting cargo from pier to pier. This pier-to-pier portion of today's shipping company's cost is less than 20% of its total expenses. Sea-Land and American President Lines, although they are called shipping companies, are really transportation companies, concerned with getting the goods all the way from the loading station at the shippers plant to the delivery bay at the receivers facility.

So is it with the military. They are interested in getting their supplies across the oceans, but they recognize that getting material from storage to the front lines encompasses dealing with terminals, land transportation (rail, truck, and air), ports, and stevedores, as well as with the water transportation segment.

Intermodalism and logistics are the more inclusive terms today, and shipping companies have led the way in becoming intermodal logistic companies. The Department of Transportation has recognized this change and now has a high ranking Intermodal Transportation position in the Department.

Likewise, the Academy is evolving into a broader-scope institution. It is trying to keep pace with the times. Port management, intermodalism, logistics, terminal operations, environmental safety and protection, and engineering management are being added to the curriculum. While at the same time, the main focus of the Academy remains the education of merchant ship and naval vessel officers.

A BARGAIN FOR THE NATION

So, although a lot is being done to increase the activities and scope of the education and training at Kings Point, the Academy is giving the nation value today in merchant ships officers, naval officers, and future leaders with knowledge in international competition. The modest cost of a Kings Point education is about 40% less than the cost at the nation's top-25 universities. The nation's investment in this education has paid, and continues to pay, big dividends. It is important to know also that 67% of the graduates of the past 26 years are still employed in the maritime industry, much higher than other comparable statistics.

We understand the intent of the National Performance Review was to find ways to reduce the size and expense of the government in order to lower the deficit. We commend the thrust of this review. But in the race to cut spending we should not destroy a national asset that will continue to develop the young people who can lead the nation into the competitive international marketplace.

STRONG SUPPORT FOR NO TUITION

It seems that many other concerned citizens share this belief. The AFL - CIO Executive Council less than two weeks ago issued a statement opposing the Clinton Administration's proposal to reduce funding at the Academy and begin charging tuition. The Maritime Trades Department of the AFL-CIO issued a similarly strong resolution urging the Administration and Congress to insure that no tuition be charged at the Academy and the government continue full federal funding. Further, The American Legion's Executive Committee passed a resolution calling on Congress to retain full Federal funding, and a similar resolution was passed last year by the Maritime Law Association of the United States. (Copies of these resolutions are attached for your review.)

SUMMARY

We appreciate deeply the Subcommittee's continued support of the United States Merchant Marine Academy. We urge you to support Representative Ackerman's bill and oppose the Administration's misguided effort to charge tuition.

Statement
 Passenger Vessel Association
 American Waterways Shipyard Conference
 for the hearing on
 Maritime Administration Fiscal Year 1995 Budget
 Subcommittee on Merchant Marine
 U.S. House of Representatives
 March 9, 1994

The Passenger Vessel Association (PVA) and the American Waterways Shipyard Conference (AWSC) are delighted to submit this statement in support of the Title XI loan guarantee program administered by the Maritime Administration and, specifically, its application to passenger vessels.

The Passenger Vessel Association is the national trade association for the passenger vessel industry. Founded in 1971, the Association represents more than 500 companies that own, operate and supply U.S.-flag passenger vessels, including some 32 shipyards that specialize in passenger vessel construction. The American Waterways Shipyards Conference is comprised of 55 companies which operate 65 facilities in 17 states. Together, our organizations represent a group of shipyards and craftsmen that build some of the most advanced, sophisticated passenger vessels in the world today.

We are pleased to have an opportunity to ask for a clarification in the policies of the Maritime Administration regarding the availability of Title XI loan guarantees for the construction of passenger vessels. For years, Title XI loan guarantees were available to

qualified individuals to build passenger vessels, just as they were available to qualified individuals to build tankers or containerships. This non-discriminatory treatment of applications for passenger vessels properly reflected the intent of Congress as articulated in the enabling legislation of 1936. Indeed, Section 1101 (b) of Title XI specifically states that the term "vessel...includes all types, whether in existence or under construction, of passenger cargo and combination passenger-cargo carrying vessels...". In addition, Title I (Declaration of Policy) of the Merchant Marine Act of 1936, through which the Title XI program is authorized, states that "efficient facilities for shipbuilding and ship repair" is among the primary goals of the Act.

Since the mid-1980's, however, it has been the policy of the Maritime Administration to not consider Title XI applications for the construction of passenger vessels, unless the vessels in question boast overnight accommodations or meet certain other tests. This appears to be an internal policy of the Maritime Administration without basis in law or regulation. As a matter of record, PVA and AWSC believe that Title XI loan guarantees should be available, on a non-discriminatory basis, to all segments of the maritime industry currently authorized by statute to receive them. We also find it an anomaly that foreign citizens now will be eligible to receive Title XI loan guarantees for the construction of vessels in U.S. shipyards, but U.S. citizens will not be eligible to receive them for the construction of passenger vessels in U.S. shipyards.

Title XI offers an attractive financing option for individuals who would build passenger vessels for either the domestic or international markets. Unlike some other segments of the maritime industry, there is today a market for passenger vessels if the initial financing can be arranged. United States shipyards are highly competitive in the

design and production of these vessels. Indeed, some of the newest technology in vessel construction has been developed by American shipyards in support of a new generation of high speed passenger vessels. We believe the availability of Title XI will enable this work to continue, as more financing is made available and new contracts signed. In turn, this means new jobs for the shipyards we represent as well as for others all across the country.

First, however, the Maritime Administration must affirm a policy in support of Title XI loan guarantees for passenger vessels. Potential builders of passenger vessels are reluctant to go to the work involved in preparing a Title XI application without knowing at the outset that the application will be accepted and evaluated on the merits.

We ask the Subcommittee's assistance in clarifying this policy in behalf of U.S. shipyards and the passenger vessel industry.

Statement by the AFL-CIO Executive Council
on
Support for the U.S. Merchant Marine Academy

February 24, 1994
Bal Harbour, FL

The AFL-CIO opposes the Clinton administration's proposal to reduce funding for the United States Merchant Marine Academy and to begin charging tuition to that institution.

The Academy is the world's leading maritime educational institution and an essential part of an outstanding maritime training system that includes union training facilities and state maritime schools. Maintaining and improving this system is especially important at a time when ongoing developments in shipboard technology require seafarers to possess advanced knowledge and superior technical skills.

The administration's proposal to reduce the Academy's funding and charge tuition would be a further abdication of government's essential role in preserving a domestic merchant fleet and a corps of highly-qualified merchant seafarers. We have long decried the government's failure to stop the severe decline of the U.S. flag merchant marine, which has played such a critical role in international commerce and in fulfilling America's military sealift requirements during wartime.

For the sake of America's economic and security interests, the AFL-CIO urges the administration and Congress to continue full funding for the U.S. Merchant Marine Academy and to make maritime training and education an important element in a comprehensive policy to rebuild the domestic-flag merchant fleet.

MARITIME EDUCATION AND TRAINING

The United States has the best maritime training and education system in the world. With union training facilities, state maritime schools, and the federal academy, Americans are the best trained seamen in the world.

Education and training is so important today with ships becoming more sophisticated, with crew sizes being reduced, with time in port being diminished, and with environmental safety and protection receiving its proper attention. Anyone with money can buy the latest technology. The only real difference is the quality of the people who use it.

It is well known that the world is faced with problems in the maritime area. There is a projected shortage of seafarers worldwide as high as 325,000 persons by the end of this century. How will the education and professional qualifications and certification of these new seafarers (and existing ones) be accomplished. This is a matter of concern for all nations.

The United States has not heeded the lessons it should have learned during Desert Shield/Desert Storm. Adequate United States ships and seafarers were not available to meet the basic needs of the nation. Also, the Defense Department has endorsed a policy of using foreign-flag ships in times of national emergency, thereby reducing the jobs for members on ships, ashore, in the shipyards and the ports.

Further, the administration has proposed that the funding of the United States Merchant Marine Academy be cut in half and tuition be charged. This recommendation could have the effect of closing one of the world's leading maritime educational institutions.

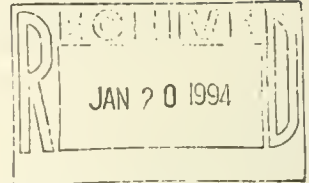
Since many of the students attending the academy would not be able to get a college education if tuition were charged, since the student body is diverse -- drawing capable young men and women from all areas of the nation -- since the students make a commitment to the nation for at least 12 years, and since the nation not only needs a merchant marine, but one manned with well-trained and educated seafarers to protect the economic security of the nation as well as its national security; now, therefore be it

RESOLVED: That the Executive Board of the Maritime Trades Department, AFL-CIO, urges the administration and the Congress to insure that no tuition be charged at the United States Merchant Marine Academy and the government continue full federal funding of this academy.

**Maritime Trades Department, AFL-CIO
Executive Board Meeting
Sheraton Bal Harbour Hotel
Bal Harbour, Florida
February 17-18, 1994**

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NATIONAL EXECUTIVE COMMITTEE MEETING
OF
THE AMERICAN LEGION
INDIANAPOLIS, INDIANA
OCTOBER 20-21, 1993



RESOLUTION NO: 9

SUBJECT: RETAIN FULL FEDERAL FUNDING FOR THE MERCHANT
MARINE ACADEMY

COMMITTEE: NATIONAL SECURITY

WHEREAS, The Report of the National Performance Review, referred to as "Reinventing the Government," has recommended that Federal funding for the United States Merchant Marine be reduced by one-half and that the Academy should charge tuition to cover expenses; and

WHEREAS, Such a recommendation, if implemented, would further degrade the United States Merchant Marine and in all probability, would result in the closing of this Federal academy; and

WHEREAS, The Merchant Marine Academy benefits the United States Maritime industry but also conveys a greater benefit to the United States overall, as the Academy is the single largest source of Reserve Navy Officers and is the undisputed leader in maritime education worldwide; and

WHEREAS, The Merchant Marine is one of the few civilian industries that supports United States war efforts by actually going to war as was demonstrated in the Persian Gulf War, and it is this unique relationship that was the driving impetus for establishing the Academy; and

WHEREAS, As the nature of U.S. military involvements has evolved, so has the role and curriculum of the Academy; and United States still requires a mechanism to produce trained Merchant Marines to crew the Reserve fleet and commercial ships called into service during crises; and

WHEREAS, State Maritime Academies are beyond Federal control and each is pursuing independent tracks in non-maritime programs in an effort to meet diversified local educational needs; now, therefore, be it

RESOLVED, By the National Executive Committee of The American Legion in regular meeting assembled in Indianapolis, Indiana, on October 20-21, 1993, That The American Legion urges the Congress to retain full Federal funding for the United States Merchant Marine Academy.

WHEREAS, the Maritime Law Association of the United States consists of approximately 3,500 judges, attorneys, and other maritime leaders dedicated to serving and promoting the maritime interests of the United States; and

WHEREAS, this association has learned of a recommendation to reduce the appropriation needed to maintain the operations of the United States Merchant Marine Academy at Kings Point, as set forth in the draft report dated August 27, 1993, titled "T.R. 18: Reduce Spending for the U.S. Merchant Marine Academy"; and

WHEREAS, a strong maritime industry, which includes but is not limited to the following has developed in our nation: ship owners, ship operators, ship builders, naval architects, ship repair and maintenance facilities, marine salvors, ports, terminals, stevedores, ship chandlers, ship financing institutions, marine insurance, ship and cargo surveyors, admiralty attorneys, marine pilots, ship brokers, and ship charterers; and

WHEREAS, in the Merchant Marine Act of 1936, our Government recognized the need for a federal institution to provide specialized training for persons to lead this industry, and established the United States Merchant Marine Academy at Kings Point, New York; and

WHEREAS, the need recognized in 1936 is even greater in today's expanding global economy; it is hereby

RESOLVED, by the membership of the Maritime Law Association of the United States at its general meeting on October 29, 1993, that the President of the Association should convey to our Government the Association's concerns and its opposition to any reduction in the appropriation for the United States Merchant Marine Academy at Kings Point.

PROJECT ACTA

Supporting the United States Merchant Marine Academy,
the U.S. Merchant Marine, and the Nation's Security

Fred S. Sherman
President

March 9, 1994

BIOGRAPHY

FRED S. SHERMAN

After graduating from the U. S. Merchant Marine Academy in 1955, he sailed as a deck officer with Calmar Steamship Corporation, and then went on active duty in the U.S. Navy aboard the heavy cruiser U.S.S. NEWPORT NEWS, the flagship of the Sixth Fleet in the Mediterranean.

After completing Naval service, Sherman came ashore with the Bethlehem Steel Shipping Companies (Calmar Line was one subsidiary), where he started as a senior clerk and work up to Vice President of Operations. Then, at 32, he was elected President of all the water transportation subsidiaries of Bethlehem which included not only their large international fleet, but also their intercoastal, coastwise, and Great Lakes fleets, a barging operation on the Chesapeake Bay and a freight forwarding company.

He changed Bethlehem's shipping companies from a service organization to a profit center, during which revenues doubled and profits tripled before leaving to become Chairman of the Board of the Marine Transport Lines Group of Companies.

MTL was a "turn-around" situation. In a little over three years, he returned the companies to profitability and set them on a course for the future. He left Marine Transport Lines and joined SCNO Barge Lines in St Louis, where he was President of the barge company, a terminal company, and other subsidiaries. In two years he led the companies to record profits. Then, due to the U.S. grain embargo, the industry went into a six-year depression which changed the whole River business.

After selling SCNO to a subsidiary of CSX Corporation, he formed Plimssoll Marine, Inc., a marine consulting company, later ran the Port of Pascagoula (Mississippi), was involved briefly with the American Bureau of Shipping before coming back to Kings Point in 1992 to serve as Executive Director of the Alumni Association and Foundation.

When the National Performance Review was issued, threatened the existence of the Academy, he left the Alumni organization and became President of Project Acta, Inc., an organization established for educating the public and lobbying in Washington. Project Acta is dedicated to ... "Supporting the United States Merchant Marine Academy, the U.S. Merchant Marine, and the Nation's Security".

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-1

Merchant Marine Officers

Mr. Lipinski: Are there sufficient merchant marine officers and seamen to meet peacetime needs and defense contingencies?

General Fogleman: In the near term, we have an adequate supply of mariners. However, the shrinking number of employed merchant mariners concerns us for future manning of government-owned reserve vessels.

TCJ5-A/MR DIAS/DSN 576-6529

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-2

Manpower Mobilization Program

Mr. Lipinski: What is DoD's position on MARAD's proposed Sealift Manpower Mobilization Program?

General Fogleman: We support programs that would help to ensure an adequate pool of skilled mariners for RRF crewing. This program should help attain that goal.

TCJ5-A/MR DIAS/DSN 576-6529

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-3

MSC Employment

Mr. Lipinski: How many employees did MSC recruit for employment in FY 1993 from the State and U.S. Merchant Marine Academies?

General Fogleman: MSC recruited 21 Civil Service Mariners to fill 1 licensed, 20 unlicensed positions from these academies for employment on MSC (USNS) vessels.

TCJ5-A/MR DIAS/DSN 576-6529

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-4

Joint Planning

Mr. Lipinski: How does DoD plan to increase coordination with U.S.-flag carriers to meet defense shipping requirements? What is the status of U.S. Transportation Command's "Requirement Committee"?

General Fogleman: We are proceeding with a joint planning initiative which we hope will result in streamlined business practices and increased readiness.

We addressed this issue to members of this subcommittee in October 1993. Shortly thereafter, we assembled a "Requirements Definition Team" to promote accuracy in peacetime requirements forecasting and instill more formalization to both the forecasting and MSC fleet sizing processes. This team has been meeting monthly to accomplish these goals. Key initiatives underway are the establishment of MTMC (vice MSC) as the single interface with DoD shippers for receipt/consolidation of shipper forecasts and a formal agreement between MTMC and MSC that provides for regular (at least quarterly) meetings to evaluate forecasted and emergent requirements and address fleet sizing. The goal is to keep the MSC chartered fleet to the minimum size needed to meet requirements that cannot be met by U.S. flag liner service.

TCJ5-A/MR DIAS/DSN 576-6529

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-5

Joint Planning

Mr. Lipinski: What steps have been taken to satisfy the joint planning requirements mandated in section 1173 of the Fiscal Year 1994 Defense Authorization?

General Fogleman: We are working with DoT's Office of Intermodalism and MARAD to ensure compliance with this directive.

We are moving ahead with a joint planning initiative that will provide an excellent forum to meet the objectives of this directive and, at the same time, increase our readiness by the joint (industry/government) development of commercial commitment for contingencies.

We have hosted two conferences with maritime industry CEOs, one in February 1993 and the last one in February of this year. MSC is leading a Sealift Readiness Improvement Study with representatives from all sectors of the maritime industry.

"Team Spirit 93" was the first exercise involving commercial intermodal movement of an Army unit from fort to port and return (FT Lewis - Korea - FT Lewis). Other exercises to expand on this initiative are planned in the future.

In addition to joint planning, we intend to conduct a joint government/industry wargame in the future.

TCJ5-A/MR DIAS/DSN 576-6529

Question for the Record

U.S. House of Representatives
Committee on Merchant Marine and Fisheries

March 9, 1994

Lipinski Q-6

U.S.-Flag Fleet

Mr. Lipinski: What is your sense of the potential problems for sealift if the size of the U.S.-flag fleet continues to decline? What actions might be taken by the military if there is no government maritime program?

General Fogleman: Our ability to obtain commercial sealift for sustainment shipping will be impacted. Our ability to respond unilaterally to a contingency will be degraded. Continued decrease in numbers of U.S. flag ships also means less jobs for the skilled mariners we need to man organic shipping.

We will need to consider all options to replace ships leaving the U.S. flag fleet if there is no maritime program. Our planning will need to consider increased reliance on foreign flag shipping, developing formal agreements with our allies, and requisitioning of ships if circumstances warrant.

TCJ5-A/MR DIAS/DSN 576-6529

Questions for the Record

The attached spreadsheet depicts the requested data in tabular form keyed to each question. Not included in this data is DoD cargo transported by foreign flag ships due to nonavailability of U.S. flag ships. This cargo totaled 453 thousand measurement tons of dry cargo (8% of total) with revenue of \$ 23.8 million (2% of total) paid for that service.

1. How many containers were shipped under the MSC Container Agreement and Rate Guide by trade route, and how much was paid to U.S. Flag commercial ocean carriers for these shipments?

Response:

Route	Paid to U.S. Flag Block 1, Column G
West Coast-Far East	\$110,378,000
East Coast-Europe/United Kingdom	\$127,722,000
East Coast-Mediterranean	\$ 23,067,000
East Coast-Middle East	\$ 4,694,000
Gulf Coast-Scandinavia	\$ 85,000
Gulf Coast-Europe/United Kingdom	\$ 17,524,000
Gulf Coast-Mediterranean	\$ 756,000
Gulf Coast-Middle East	\$ 89,000
Hawaii-Far East	\$ 1,106,000
Hawaii-Europe/United Kingdom	\$ 13,000
East Coast-Scandinavia	\$ 368,000
East Coast-Central America	\$ 3,775,000
Gulf Coast-Central America	\$ 10,322,000
West Coast-Middle East	\$ 2,015,000
West Coast-Australia	\$ 71,000
Europe/United Kingdom-Middle East	\$ 189,000
Caribbean Interport	\$ 48,000
Far East Interport	\$ 1,714,000
Mediterranean Interport	\$ 551,000
Scandinavia/Europe/UK	\$ 78,000
Europe/UK/Mediterranean	\$ 117,000
Europe/UK/Ireland Interport	\$ 1,394,000
Far East-Middle East	\$ 971,000
Mediterranean-Middle East	\$ 9,000
Total	<u>\$307,057,000</u>

Note: Number of containers is not available at this time because data is aggregated in measurement tons to provide customer billing information. Total measurement tons is 3.4 million which equates to approximately 110 thousand twenty foot equivalent units (TEUs).

See spreadsheet Block 1, MSC Worldwide Container Agreement, for additional detail.

2. What are the tonnages and types of cargo shipped under the MSC Shipping Agreement and Rate Guide, and how much was paid to U.S. flag commercial ocean carriers in each of these categories?

Response:

Type of Cargo	Tonnage Block 2, Column B	Paid to U.S. Flag Block 2, Column G
Unusual Size	11,000	\$ 817,000
General Cargo	44,000	\$ 5,019,000
Light Vehicles	441,000	\$ 29,883,000
Heavy Vehicles	193,000	\$ 14,484,000
	Total	<u>\$ 50,203,000</u>

See spreadsheet Block 2, MSC Worldwide Shipping Agreement, for additional detail.

3. How many containers were shipped under dedicated contracts, and how much was paid to U.S. flag commercial ocean carriers for the shipment of these cargoes?

Response:

By Dedicated Contracts	Tonnage Block 3, Column B	Paid to U.S. Flag Block 3, Column G
Guantanamo	95,000	\$ 4,198,000
Bermuda	31,000	\$ 1,825,000
Iceland	29,000	\$ 3,273,000
Azores	45,000	\$ 6,333,000
ADAK	54,000	\$ 5,132,000
(Also included in Jones Act table)		
	Total	<u>\$ 20,760,000</u>

NOTE: Number of Containers not available at this time because data is aggregated in measurement tons to provide customer billing information. Total measurement tons is 200 thousand, which equates to approximately 6500 TEU's.

See spreadsheet Block 3, Dedicated Contracts, for additional detail.

4. How much was paid to U.S. flag commercial ocean carriers for service contracts (AAFES, DPSC, Beef to Europe Commissary Contract)?

Response:

By Service Contracts	Paid to U.S. Flag Block 4, Column G
MSC	
AAFES	\$ 8,546,000
Defense Commissary Agency	\$ 4,010,000
	<hr/>
Total	\$ 12,557,000
MTMC	
AAFES	\$ 2,358,000
Defense Commissary Agency	\$ 272,000
	<hr/>
Total	\$ 2,630,000

NOTE: DPSC service contract commenced in FY94. Therefore no payments in FY 93.

See spreadsheet Block 4, Service Contracts, for additional detail.

5. Please provide data on billings to the military services and DOD agencies by both MTMC and MSC for the above shipments. Please separate the data by Container Agreement, Shipping (breakbulk) Agreement, Dedicated Contracts, and Service Contracts.

Response:

Billings to the shipper services (MTMC and MSC customer billings) has been included as columns J and A in the spreadsheet for each category.

	MTMC	MSC
Container Agreement	\$ 54,789,000	\$ 345,052,000
Shipping Agreement	\$ 9,918,000	\$ 64,224,000
Dedicated Contracts	\$ 1,837,000	\$ 15,381,000
Service Contracts	\$ 2,630,000	\$ 15,456,000
	<hr/>	<hr/>
Grand Total	\$ 69,174,000	\$ 440,113,000

6. What was the ocean revenue paid to U.S.-flag commercial ocean carriers by trade route for the movement of Military Household Goods contracted by MTMC, and were there any billings to the military services for these movements? If so, how much?

Response:

An estimated 95% of military household good shipments move under a single-factor rate outside of the Defense Transportation System. Rates are established with the carriers to cover the entire movement from point of origin to ultimate destination and combine charges for all intermediate increments, i.e. packing, pickup, drayage to the port of embarkation, trans-oceanic movement, inland drayage to destination, and delivery/unpacking. The decisions regarding the trade routes over which movements are accomplished are left to the carriers' discretion. Carriers do not provide a detailed breakout of costs associated with each phase of movement. Carriers submit their bills to the Defense Finance and Accounting Service for payment and billing of the military services. There were no separate billings submitted by either MTMC or MSC for these movements.

7. How much was paid by MSC to U.S. flag operators for time charters and voyage charters, and what was billed by MSC and MTMC to DOD users of these vessels?

Response:

Time Charters/ Voyage Charters	Billed to Mil Srvs Block 7, Column A	Paid to U.S. Flag Block 7, Column G
RO/RO Charter	\$ 36,486,000	\$ 31,392,000
Breakbulk	\$ 50,386,000	\$ 53,451,000
Prepo	\$513,127,000	\$617,658,000
Tanker	\$121,064,000	\$146,870,000
Total	<u>\$721,063,000</u>	<u>\$849,371,000</u>

MTMC charge to customer \$7,289,000 (See spreadsheet Block 7, Column J)

8. How much was paid to U.S. flag commercial ocean carriers for the shipment of U.S. Government preference cargoes transported under International Government Bills-of-Lading (ITGBLs), and what was billed by MSC and MTMC to the military services, DOD agencies, and foreign governments? How much was paid to U.S. flag commercial ocean carriers for the shipment of Foreign Military Sales (foreign military financed), and how much was billed by MSC and MTMC for these shipments?

Response:

	Billed to Services/ Foreign Gov Block 8, Column A	Paid to U.S. Flag Block 8, Column G
ITGBLs	\$ 19,327,000	\$ 13,014,000
Foreign/Mil Sales	\$ 1,590,000	\$ 2,515,000
Total	<u>\$ 20,917,000</u>	<u>\$ 15,529,000</u>

MTMC customer charges were \$ 749,000 for ITGBLs and \$ 151,000 for FMS.
See spreadsheet Block 8, International GBL's, for additional detail.

9. How much was paid to U.S.-flag commercial ocean carriers for the shipment of cargoes made under the Jones Act, and what was billed to the military services and DOD agencies by MSC and MTMC?

Response:

Jones Act	Billed to Services by MSC Block 9, Column A	Paid to U.S. Flag Column G
Alaska Container	\$ 19,238,000	\$ 15,901,000
Puerto Rico Container	\$ 4,790,000	\$ 9,909,000
ADAK Contract	\$ 6,060,000	\$ 5,132,000
Domestic GBL (Hawaii & Guam)	\$ 90,164,000	\$ 86,824,000
Total	<u>\$ 130,252,000</u>	<u>\$ 117,766,000</u>

NOTE: Does not include tanker cargoes.

MTMC: Billing rate/charge \$ 15,131,000.

See spreadsheet Block 9, Jones Act, for additional detail.

10. In the port-to-port with rate guide inland, port-to-port, or intermodal rates quoted by the ocean carriers, are you able to identify any of the following costs: ocean freight, wharfage, drayage, special cargo handling or intermodal and ground transportation services: If so, please identify the total costs paid to ocean carriers for each category.

Response: These other charges have been identified as Other Liner Costs in Column D of the spreadsheet for all categories.

11. Why has the Administration failed to include the DOD Title XI matching funds in this Fiscal Year 1995 budget request to Congress?

Response: In October 1993, the President submitted to Congress his plan for strengthening America's shipyards. Among the points in the plan was a commitment to request \$147 million for Title XI loan guarantees. Funding was to be provided with the \$47 million remaining from the FY 1993 MARAD appropriation for Title XI loan guarantees (from budget function 054), carried forward to FY 1994, and \$100 million from DoT (\$50 million in FY 1995, \$30 million in FY 1996, and \$20 million in FY 1997).

During the development of the FY 1994 budget, the Administration agreed with a Congressional proposal to accelerate the funding for Title XI loan guarantees. DoD was to provide matching funds in FY 1994, essentially doubling the FY 1994 funding level for Title XI. The results of the action taken in FY 1994 is to reduce the amount DoT must request to implement the President's plan from a total of \$100 million to \$50 million. The FY 1995 President's budget requests \$50 million for the Title XI program in the DoT budget, completing the funding recommended in the President's October 1993 plan.

				CARGO PREFERENCE
				FY 93
				IN THOUSANDS
U.S. FLAG COMMERCIAL OCEAN CARRIER REVENUE				
BLOCK	MSC CUSTOMER BILLINGS	MEASUREMENT TONS	OCEAN FREIGHT	OTHER
	A	B	C	D
1) MSC WORLDWIDE CONTAINER AGREEMENT (RATE GUIDE) BY ROUTE				
WEST COAST-FAR EAST	\$134,401	1,191	\$91,185	\$19,190
EAST COAST-EUROPE/UNITED KINGDOM	\$131,080	1,422	\$98,361	\$29,361
EAST COAST-MEDITERRANEAN	\$24,564	307	\$17,557	\$5,510
EAST COAST-MIDDLE EAST	\$5,363	18	\$2,253	\$2,441
EAST COAST-SCANDINAVIA	\$53	1	\$82	\$2
GULF COAST-EUROPE/UNITED KINGDOM	\$19,138	193	\$11,804	\$5,720
GULF COAST-MEDITERRANEAN	\$995	7	\$606	\$150
GULF COAST-MIDDLE EAST	\$152	1	\$28	\$61
HAWAII-FAR EAST	\$1,408	8	\$1,060	\$46
HAWAII-EUROPE/UNITED KINGDOM	\$15	1	\$13	\$0
HAWAII-SCANDINAVIA	\$308	3	\$305	\$63
EAST COAST-SCANDINAVIA	\$4,303	40	\$3,368	\$407
EAST COAST-CENTRAL AMERICA	\$14,951	154	\$7,878	\$2,444
GULF COAST-CENTRAL AMERICA	\$2,569	13	\$1,628	\$387
WEST COAST-MIDDLE EAST	\$93	1	\$69	\$2
WEST COAST-AUSTRALIA	\$369	2	\$176	\$13
EUROPE/UNITED KINGDOM-MIDDLE EAST	\$58	1	\$47	\$1
CARRIBAN INTERPORT	\$1,240	24	\$1,276	\$438
FAR EAST INTERPORT	\$545	6	\$365	\$186
MEDITERRANEAN INTERPORT	\$68	1	\$77	\$1
SCANDINAVIA-EUROPE/UNITED KINGDOM	\$108	1	\$86	\$31
EUROPE/UNITED KINGDOM-MEDITERRANEAN	\$1,245	25	\$86	\$1,308
EUROPE/UNITED KINGDOM-IRELAND INTERPORT	\$2,025	9	\$938	\$33
FAR EAST-MIDDLE EAST	\$10	1	\$9	\$0
MEDITERRANEAN-MIDDLE EAST				
TOTAL CONTAINER LINER AGREEMENT	\$345,062	3,430	\$239,259	\$67,798
2) MSC WORLDWIDE SHIPPING AGREEMENT (RATE GUIDE) BY COMMODITY				
UNUSUAL SIZE CARGO	\$876	11	\$817	
GENERAL CARGO	\$3,417	44	\$5,019	
LIGHT VEHICLES	\$38,474	441	\$29,883	
HEAVY VEHICLES	\$21,457	193	\$14,484	
TOTAL BREAKBULK LINER AGREEMENT	\$64,224	689	\$50,202	
3) DEDICATED CONTRACTS BY CONTRACT				
GUANTANAMO	\$4,587	95	\$3,743	\$456
BERMUDA	\$2,332	31	\$1,821	\$4
ICELAND	\$2,897	29	\$3,262	\$11
AZORES	\$5,565	45	\$6,001	\$332
TOTAL	\$15,381	200	\$14,827	\$802
4) SERVICE CONTRACTS				
ARMY AIRFORCE EXCHANGE SERVICE	\$10,239	174	\$8,393	\$153
DEFENSE COMMISSARY AGENCY	\$5,217	20	\$3,357	\$664
TOTAL	\$15,456	194	\$11,750	\$807
7) TIME/VOYAGE CHARTERS RO/RO CHARTER BREAKBULK CHARTER	\$36,486 \$50,386			
PREPO SHIPS	\$513,127			
TANKERS	\$121,064			
TOTAL	\$721,063			
8) INTERNATIONAL OBL'S (LESS FOREIGN MILITARY SALES) FOREIGN MILITARY SALES	\$19,327 \$1,590	103 13	\$13,014 \$2,515	
TOTAL	\$20,917	116	\$16,529	
9) JONES ACT				
ALASKA CONTAINER AGREEMENT	\$19,238	267	\$13,700	\$2,200
PUERTO RICO CONTAINER AGREEMENT	\$14,790	228	\$9,431	\$478
ADAK CONTRACT	\$6,060	54	\$4,765	\$367
DOMESTIC OBL (E.G., HAWAII, GUAM)	\$90,164	816	\$86,824	
TOTAL	\$130,252	1,364	\$114,721	\$3,045
GRAND TOTAL	\$1,312,344	5,994	\$446,287	\$72,452
1) INCLUDES \$40M IN CAPITAL HIRE COSTS				
* TOTAL EXPENSE AMOUNTS MAY NOT AGREE WITH DETAIL AMOUNTS DUE TO ROUNDING				

MSC CHARTER HIRE DIRECT EXPENSE E	ALL OTHER CHARTER DIRECT EXPENSE (E.G., FUEL, PORT, ETC.) F	TOTAL PAID TO U.S. FLAG OCEAN CARRIERS G	MSC OVERHEAD H	TOTAL EXPENSE TO MSC I	MTMC CUSTOMER JACKSONVILLE J
		\$110,378	\$15,056	\$125,433	
		\$127,722	\$17,364	\$145,086	
		\$23,067	\$3,146	\$26,213	
		\$4,694	\$640	\$5,335	
		\$85	\$12	\$96	
		\$17,524	\$2,390	\$19,914	
		\$756	\$103	\$859	
		\$89	\$12	\$101	
		\$1,106	\$151	\$1,257	
		\$13	\$2	\$15	
		\$368	\$50	\$419	
		\$3,775	\$515	\$4,290	
		\$10,322	\$1,408	\$11,730	
		\$2,015	\$275	\$2,289	
		\$71	\$10	\$80	
		\$189	\$26	\$215	
		\$48	\$7	\$55	
		\$1,714	\$234	\$1,948	
		\$561	\$75	\$636	
		\$78	\$11	\$89	
		\$117	\$16	\$133	
		\$1,394	\$190	\$1,585	
		\$971	\$133	\$1,104	
		\$9	\$1	\$10	
		\$307,067	\$41,825	\$348,892	\$54,789
		\$817	\$40	\$857	
		\$5,019	\$244	\$5,263	
		\$29,883	\$1,455	\$31,338	
		\$14,484	\$705	\$15,189	
		\$50,203	\$2,445	\$52,647	\$9,918
		\$4,198	\$573	\$4,771	
		\$1,825	\$249	\$2,073	
		\$3,273	\$446	\$3,719	
		\$6,333	\$837	\$7,170	
		\$15,628	\$2,105	\$17,734	\$1,837
		\$8,546	\$1,166	\$9,712	
		\$4,010	\$547	\$4,557	
		\$12,557	\$1,713	\$14,269	\$2,630
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\$499,602	\$349,762	\$849,371	\$9,347	\$858,718	\$7,289
		\$13,014	\$526	\$13,540	
		\$2,516	\$126	\$2,641	
		\$16,629	\$662	\$17,291	
		\$15,901	\$2,169	\$18,069	
		\$9,909	\$1,352	\$11,261	
		\$5,132	\$700	\$5,832	
		\$86,824	\$3,614	\$90,438	
		\$117,766	\$7,834	\$125,600	\$7,351
\$499,602	\$349,762	\$1,368,111	\$65,921	\$1,434,031	\$83,814
			C.V. LOTUS LANCEPPE		

CARGO PREFERENCE
FY 93
IN THOUSANDS

U.S. FLAG COMMERCIAL OCEAN CARRIER REVENUE

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		\$86	\$12	\$96	
		\$17,524	\$2,390	\$19,914	
		\$756	\$103	\$869	
		\$89	\$12	\$101	
		\$1,106	\$151	\$1,257	
		\$13	\$2	\$15	
		\$368	\$50	\$419	
		\$3,775	\$615	\$4,290	
		\$10,322	\$1,408	\$11,730	
		\$2,015	\$275	\$2,289	
		\$71	\$10	\$80	
		\$189	\$26	\$215	
		\$48	\$7	\$54	
		\$1,714	\$234	\$1,948	
		\$561	\$75	\$626	
		\$78	\$11	\$89	
		\$117	\$16	\$133	
		\$1,394	\$190	\$1,585	
		\$971	\$133	\$1,104	
		\$9	\$1	\$10	
		\$307,067	\$41,825	\$348,882	\$54,789
		\$817	\$40	\$867	
		\$6,019	\$244	\$6,263	
		\$29,883	\$1,455	\$31,338	
		\$14,484	\$705	\$15,189	
		\$50,203	\$2,446	\$52,647	\$9,918
		\$4,198	\$573	\$4,771	
		\$1,825	\$249	\$2,073	
		\$3,273	\$446	\$3,719	
		\$6,333	\$837	\$7,170	
		\$16,628	\$2,105	\$17,734	\$1,837
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		\$2,615	\$126	\$2,641	
		\$15,529	\$652	\$16,181	
		\$15,901	\$2,159	\$18,069	
		\$9,909	\$1,352	\$11,261	
		\$5,132	\$700	\$5,832	
		\$86,824	\$3,614	\$90,438	
		\$117,766	\$7,834	\$125,600	\$7,351
\$499,602	\$349,762	\$1,268,111	\$65,921	\$1,434,031	\$83,814

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U.S. Department
of Transportation

**Maritime
Administration**

Administrator

400 Seventh Street, S.W.
Washington, D.C. 20590

03 MAY 1994

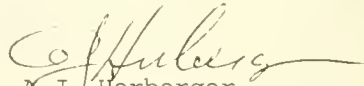
The Honorable William O. Lipinski
Chairman
Subcommittee on Merchant Marine
U.S. House of Representatives
1334 Longworth House Office Building
Washington, D.C. 20515-6320

Dear Mr. Lipinski:

Enclosed are our responses to the supplemental questions supplied after the March 9, 1994 hearing before the Subcommittee on the Maritime Administration's authorization request for FY 1995.

If you need any further information, please contact Cher Brooks, the Director of External Affairs.

Sincerely,


A.J. Herberger
Maritime Administrator

Enclosures

QUESTIONS FOR THE MARITIME ADMINISTRATION
SUBMITTED FOR THE RECORD
MARCH 9, 1994

STATE MARITIME ACADEMIES

QUESTION 1: What is MARAD's position on the proposal to create a Maritime Education and Trust Fund? Would MARAD support the creation of such a fund?

ANSWER: The State maritime schools have proposed the establishment of such a trust fund. As we understand it, the proposal would direct a large portion (or all) of the proceeds of the National Defense Reserve Fleet (NDRF) scrap ship sales into a fund earmarked for maritime education. Presumably, Kings Point and the State maritime schools would be the beneficiaries.

MARAD does not support the establishment of such a trust fund. Rather, we believe an appropriate balance has been achieved in the distribution of NDRF scrap sales proceeds between the maritime academies and national defense purposes (e.g., the Ready Reserve Force), as currently authorized by law.

Maritime Academy Job Placement

QUESTION 2: How does the Merchant Marine Academy's graduate job placement record in seafaring compare with those of the State Maritime academies?

ANSWER: Seafaring Employment:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
State Schools	226 (54%)	236 (63.6%)	305 (75.1%)	240 (50.25)	389 (46.1%)
USMMA	52 (30%)	87 (46.0%)	107 (65.65)	55 (35.5%)	79 (41%)

Crew Availability

QUESTION 3: Are there sufficient merchant marine officers and seamen available to meet peacetime requirements as well as requirements during defense contingencies? What are your projections for crew availability at the turn of the century?

ANSWER: Enough trained personnel exist to crew the privately-owned, U.S.-flag merchant fleet in peacetime. However, this labor force would be hard pressed to meet simultaneously both commercial and defense crewing needs, given a mobilization for war in which the full RRF and other Government-owned and controlled sealift assets were activated.

With a decreasing fleet, smaller average crew size and increasing productivity on U.S.-flag ships, our ability to crew reserve sealift ships rapidly in future crises will be substantially diminished.

QUESTION 4: Will MARAD's enforcement and oversight functions in Government impelled cargo programs be strengthened as part of your plan to reorganize the agency?

ANSWER: MARAD does not have any enforcement authority with respect to government impelled cargo programs. We envision a strengthening to our oversight function as a result of MARAD's reorganization plan, which through a combination of regulations, improved interagency cooperation and data exchange will improve our ability to monitor and achieve compliance.

P.L. 480 Funding

QUESTION 5: How will the Administration's reduction in funding for the P.L. 480 food aid program impact U.S.-flag operators?

ANSWER: The Administration's funding reduction for the P.L. 480 food aid programs will adversely affect U.S.-flag operators. As a result of reduced funding and projected commodity and freight cost increases, USDA has estimated that food aid shipments for Fiscal Year (FY) 1995 will equal only 4.9 million metric tons. This 1.9 million metric ton cutback represents a 28 percent reduction from USDA's original 6.8 million metric ton budget projections for FY 1994. However, these projections do not include the 3.6 million metric tons of food aid shipped to Russia under the President's \$700 million aid package. Thus, the actual impact is a 53 percent decrease of over 4.7 million metric tons -- an amount approximately equal to the entire budgeted-for tonnage for FY 1995.

From a supply and demand standpoint, a reduction in tonnage could result in lower U.S.-flag rates since the same number of vessels will be competing for substantially reduced cargoes. However, from a maritime revitalization standpoint, the maritime community views the reduction of economic activity as a disincentive, and may be reluctant to replace aging tonnage with newer, modern vessels because such a capital investment is not justified in a shrinking economic market. This is counter-productive to the Administration's plan to revitalize the U.S. merchant fleet and to provide jobs to insure an adequate supply of trained U.S. merchant mariners.

MARAD and FEMA Working Group

QUESTION 6: Has the MARAD and the Federal Emergency Management Agency working group made any progress to address potential antitrust problems associated with defense and industry joint planning initiatives?

ANSWER: Our work with the Federal Emergency Management Agency (FEMA), in the context of the provisions of the Defense Production Act of 1950 (50 USC App. 2061, et seq.), relates to voluntary agreements between government and industry. MARAD and FEMA have had informal staff level discussions on the matter, and are satisfied that no fundamental difficulties are posed by antitrust laws as applied to joint planning between government, including Department of Defense (DOD), and industry.

Sale of NDRF Vessels

QUESTION 7: How many NDRF vessels were sold in FY 1993 and 1994 (to date)? What happened to the proceeds from these sales?

ANSWER: In FY 1993, 33 NDRF vessels were sold, generating \$11 million in revenue. To date in FY 1994, 11 NDRF vessels have been sold, resulting in \$3.5 million in proceeds.

Proceeds obtained from the scrap sales of these vessels were used to purchase fuel for the State maritime school ships; to fund training simulators and other special State maritime school projects and repairs; to conduct light-ship surveys to determine weights for future scrap sales; to purchase two barges for fleet use; to seal hatch covers on two NDRF vessels that were badly leaking; and to lay up two vessels. The proceeds also have been used for facility repairs at the U.S. Merchant Marine Academy; for simulators and training ship fuel; and for training ship maintenance. Funds from additional FY 1994 sales will be placed into the Vessel Operating Revolving Fund (VORF) for distribution as required. Some FY 1994 funds have been allocated to the drydocking and repair of the NS SAVANNAH.

NS SAVANNAH

QUESTION 8: The Subcommittee is interested in learning about a rescission request made to the Appropriations Committee regarding the use of NDRF scrapping proceeds to repair the SS SAVANNAH. Could you please elaborate?

ANSWER: P.L. 103-211 authorized the use of scrapping proceeds for the relocation, repair, and lay up of the NS SAVANNAH. No appropriation or rescission of appropriated funds was requested or needed. The attached Report on the Repair and Disposition of the Nuclear Ship SAVANNAH was provided to Congress as directed in P.L. 103-211.

Acquisition of Tankers

QUESTION 9: Has MARAD considered purchasing tankers with expiring Construction-Differential Subsidy contracts as a way to meet the pending MRS requirements?

ANSWER: MARAD has not considered such an approach. Although the Mobility Requirements Study (MRS) Volume 1 recommendations of January 23, 1992 called for 36 RRF tankers, the current DOD assessment suggests that no more tankers need to be added to the RRF.

Title XI Matching Funds

QUESTION 10: Why has the administration failed to request the DOD Title XI matching funds?

ANSWER: MARAD has initiated the paperwork for the transfer of the DOD funds to MARAD. It is expected that DOD will take expeditious action on this matter.

Title XI Applications

QUESTION 11: When does MARAD expect to begin approving Title XI applications?

ANSWER: The most recent Title XI application for new construction was approved on September 29, 1993, for Canal Barge, Inc. As of March 25, 1994, there were a total of seven pending Title XI applications. All seven applications are being processed. Upon receipt of a complete Title XI application, MARAD intends to complete processing within 60 days.

Title XI Administrative Expenses

QUESTION 12: The Credit Reform Act requires that funds be appropriated to cover Title XI program administration expenses. How are these funds used?

ANSWER: Administrative expenses include personnel compensation, travel, and support costs.

Title XI Escrow Accounts

QUESTION 13: It has been alleged that the staff of the Ship Financing Office may be frustrating the revitalization of the Title XI program by requiring substantial amounts of cash to be deposited in escrow accounts before recommending approval of projects. Could you please verify whether this is indeed occurring, and if so, does this activity delay or impede the approval of Title XI applications?

ANSWER: This allegation is false.

Domestic Trade Vessels

QUESTION 14: Are vessels in the domestic trades becoming an ever larger part of the U.S.-flag merchant marine? Are you concerned about the growing use of subsidy built vessels in the domestic trades?

ANSWER: The total number and capacity of U.S.-flag ships 1,000 gross tons and above employed in the domestic trades has declined since 1990, mainly due to the reduction in domestic tanker demand as a consequence of falling Alaskan North Slope crude oil production. Currently, oceangoing ships (1,000 gross tons and above) employed in domestic trade account for about 40 percent of the capacity in the privately owned, U.S.-flag merchant fleet.

While some members of the U.S. maritime industry are concerned about the employment of ships built with construction-differential subsidy (CDS) in the domestic trades, the number of CDS-built ships operating in the domestic trades is small relative to the total size of the domestic-trade fleet. Sea-Land and PRMSA offer domestic service on a total of 18 containerships that were originally built with CDS, but as part of their foreign trade service. These ships are required to repay CDS for the period that they are employed in the domestic trade on a *pro rata* basis. In addition there are three tankers operating in the domestic trade that were originally built with CDS: two for which the unamortized portion of CDS was repaid in 1985 and one which reached the end of its 20-year economic life in 1993.

Between 1994 and 2000, 50 CDS-built ships (excluding liquified natural gas carriers) are expected to reach the end of their economic lives. It is uncertain at this time how many of these ships might be transferred to the domestic trade. Employment prospects at the time these ships reach the end of their economic lives, including prevailing market conditions in the foreign and domestic trades, will be a major factor that vessel owners will have to consider.

New Domestic Trade Vessels

QUESTION 15: How many new vessels have actually been built for the domestic trades in recent years? How many operators have announced intentions to build new vessels for the domestic trades they now serve?

ANSWER: One container ship, the M.V. PFEIFFER, was built for Matson Lines to operate in the U.S. West Coast to Hawaii trade and one sulphur carrier is currently under construction. No operators in the domestic trades have announced plans to build new or replacement vessels. However, there is a pending Title XI ship financing guarantee application to build four car/passenger ferries to operate between Miami and Key West and Tampa and Key West.

Jones Act

QUESTION 16: Most ships in the domestic trades are 20 to 25 years old. What is being done to encourage new domestic shipbuilding? What will happen to the Jones Act trade if no new vessels are built?

ANSWER: New vessels will be built for the U.S. domestic trades when market conditions support that activity. At this time adequate tonnage is available in all of the domestic trades.

The Administration has consistently and recently endorsed the Jones Act, which reserves the domestic trades for vessels constructed in the United States. The removal of any ambiguity as to the future direction of U.S. maritime policy with respect to the domestic trades should allow the domestic ship operating companies to make rational decisions regarding the timing of contracting for replacement tonnage. The extension of the Export Control Act with regard to the prohibition on the export of Alaska North Slope oil could also work to encourage the commitment to replace U.S.-flag vessels.

If no vessels are built for the Jones Act trades, considerable investment will have to be made to keep existing vessels in class so that they can continue to operate. At some point, it will be more economical to build new vessels. Conceivably, certain trades could dry up or be served by other modes of distribution such as pipeline or rail. As for the non-contiguous domestic trades (Hawaii, Alaska, and Puerto Rico), the only alternative to the current Jones Act liner service would be trade with foreign countries.

Title XI Applications

QUESTION 17: How many pending Title XI applications do you have for new vessel construction in U.S. shipyards and has MARAD approved any applications since the beginning of the Clinton Administration?

ANSWER: As of March 25, 1994, there were a total of seven pending Title XI applications for new vessel construction in U.S. shipyards for a total guarantee amount of \$619,690,000. Two Title XI applications for new construction have been approved since the beginning of the Clinton Administration. The first approval involves the construction by McDermott of a 24,000 DWT molten sulphur carrier to be delivered in July, 1994 for Sulphur Carriers, Inc. The second project involved the construction of four inland tank barges for Canal Barge, Inc. at Jeffboat. Two tank barges were delivered on April 9, 1993; the remaining two were delivered on April 23, 1993.

Percentage of Title XI Financing

QUESTION 18: Congress recently reaffirmed the ability of MARAD to grant Title XI funds for up to 87.5 percent of the cost of a new vessel. How many pending applications seek that amount of financing?

ANSWER: As of March 25, 1994, three of the seven pending Title XI applications seek financing of 87.5 percent.

Title XI Applications

QUESTION 19: What is your expectation regarding the overall amount of Title XI applications MARAD will approve over the next year? How does that breakdown between domestic and export vessels?

ANSWER: As of March 25, 1994, there were a total of seven pending Title XI applications for new vessel construction in U.S. shipyards, for a total guarantee amount of \$619,690,000. An additional seventeen companies have expressed a serious interest in applying for Title XI financing. It is not clear what the specific breakdown will be between domestic and export vessels, but it is anticipated that a majority of the approvals will be for export vessels.

REPORT TO THE CONGRESS
ON THE
REPAIR AND DISPOSITION
OF THE
NUCLEAR SHIP SAVANNAH
February 24, 1994
DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION

REPORT TO THE CONGRESS
ON THE REPAIR AND DISPOSITION OF THE
NUCLEAR SHIP SAVANNAH

Pursuant to the Conference Report on the FY 1994 Emergency Supplemental Appropriations bill, subsequently enacted as PL 103-211 (signed February 12, 1994), the Maritime Administration has prepared this report detailing the following: (1) the scope of damage to the SAVANNAH; (2) the proposed steps to be taken to relocate the ship and conduct necessary repairs, including total costs associated with these repairs; and (3) potential options for the long-term disposition of the vessel.

This administrative provision allows the Secretary of Transportation to use up to \$1,500,000 of the proceeds derived from the sale or disposal of National Defense Reserve fleet vessels, that are currently collected and retained by the Maritime Administration, to relocate, repair and lay up the Nuclear Ship SAVANNAH.

BACKGROUND

N.S. SAVANNAH, the world's first nuclear-powered merchant ship, was designed and constructed in the period 1955-1962 under a Government-funded research and development program headed jointly by the U.S. Atomic Energy Commission (AEC) and the Maritime Administration (MARAD). After approximately eight years of successful experimental and commercial service at sea, during which the vessel traveled in excess of a half-million miles and fulfilled virtually all of its intended objectives, N.S. SAVANNAH was removed from service in 1970 and subsequently decommissioned by MARAD in accordance with the regulations of the U.S. Nuclear Regulatory Commission (NRC). N.S. SAVANNAH remains under NRC supervision under a "possession-only" license since it has been decommissioned and is no longer capable of nuclear power operation.

In July 1981, MARAD executed a five-year bareboat charter with the Patriots Point Development Authority (PPA) of South Carolina in accordance with Public Law 96-331, August 28, 1980, to facilitate use of the vessel in the Patriots Point Naval and Maritime Museum located in Mount Pleasant, S.C. Having determined that the museum proposal was a fitting and proper use of this historic vessel which had successfully fulfilled the objectives for which it was built, MARAD and PPA agreed on terms requiring, among other things, that "the Secretary of Commerce [i.e., MARAD] shall be responsible for inspection and maintenance of the hull below the waterline and that Patriots Point Development Authority shall be responsible for all other maintenance... "

The legislation and the charter agreement specifically provided

(1) for renewal of the charter for 5-year periods to a maximum of 30 years, and (2) return of the vessel by PPA at the termination of the charter "in the same condition, fair wear and tear excepted, as when the charter was entered into...." The charter also gives PPA the right to terminate at any time upon giving MARAD 30 calendar days prior notification in writing [ref. clause 15A of the charter, amendment no. 3]. PPA renewed the charter for additional five-year terms in July 1986 and again in July 1991.

MARAD has been advised informally that PPA intends to terminate and return N.S. SAVANNAH to MARAD, on a mutually agreeable schedule.

HULL CONDITION:

In 1975 N.S. SAVANNAH was drydocked for hull maintenance, minor repair and painting preparatory to lay up in MARAD's James River Reserve Fleet although, in fact, discussions were already underway to utilize the vessel in a maritime museum, first proposed in Savannah, GA, and later in Charleston, SC. This was the last time the vessel has been on drydock although underwater inspection and some minor hull repairs necessitated by normal hull deterioration have been made during the years the vessel has been moored in South Carolina, 1980-present (1994).

During a routine 1992 Nuclear Safety Review and Audit Committee meeting at PPA, MARAD learned that a "pin hole" penetration through the hull had been found in hold #7. Subsequent inspections concluded that the penetration, located in a weld area, was more than a "pin hole," and the hull had deteriorated significantly in the 18+ years since the last drydocking. Reinspection mid-1993 revealed a second "hole" and led to the conclusion that drydocking and repair were necessary and should be accomplished so as to minimize disruption of N.S. SAVANNAH's role in PPA's museum operations. The "damage" to the hull is the result of gradual deterioration over the years and clearly falls within the charter provision that "MARAD shall be responsible for inspection and maintenance of the hull below the waterline."

PPA's subsequent decision to phase out their use of N.S. SAVANNAH simplifies the hull repair task since it will not be necessary to return the vessel to its PPA berth after drydocking elsewhere. No commercial ship repair yard in South Carolina is known to have sufficient drydock capacity to handle N.S. SAVANNAH.

SCOPE OF HULL MAINTENANCE AND REPAIR REQUIRED

Throughout the 13+ years N.S. SAVANNAH has been a part of PPA's Patriots Point Naval and Maritime Museum, drydocking has been viewed as a "last resort" option because removal of the vessel would have been costly and unnecessarily disruptive to museum

operations. Periodic underwater hull inspections and minor hull repairs at the Mount Pleasant site were found to be sufficient until the previously mentioned leaks were found and identified as evidence of significant hull deterioration.

The scope of work planned to repair SAVANNAH's hull includes the following:

- o Tow vessel from Patriots Point to selected ship repair yard.
- o Drydock; audiogauge bottom; open, gasfree and inspect double bottom tanks; renew steel plating where required; blast and coat underwater hull to boottop.
- o Provide necessary electrolytic (CAPAC) services; provide environmental/radiological health physics services in repair yard as required by NCR.
- o Purchase and install additional mooring hardware and modify vessel accordingly; tow to the James River Reserve Fleet; berth vessel in location approved by NRC.

STEPS TO BE TAKEN

Consistent with PPA's expressed intent to terminate the utilization of N.S. SAVANNAH in their museum operation, MARAD plans the following sequential steps to accomplish the necessary maintenance, repair, relocation and layup of the vessel in MARAD's James River Reserve Fleet where N.S. SAVANNAH will be berthed adjacent to the U.S. Army Corps of Engineers' MH-1A Floating Nuclear Power Plant, STURGIS. It should be noted that STURGIS also is decommissioned and under the supervision of NRC. N.S. SAVANNAH, first operated under nuclear power in 1962, never experienced any failure of the nuclear fuel, leakage of radiation or radiation exposure to operating personnel or the general public beyond established permissible limits. Accordingly, no "radiation" or "nuclear" concerns arise from berthing SAVANNAH in the JRRF. Nevertheless, it will remain under NRC supervision as required by applicable regulations.

The MARAD representative for the N.S. SAVANNAH will contact the officer in charge of Marine Inspection in Charleston, S.C., to request a change of employment inspection. Qualified marine inspectors will survey the vessel prior to the coast-wise voyage (tow) to ensure the vessel meets minimum safety and material requirements.

- o PREPARATION FOR TOW AND REDELIVERY TO MARAD--PPA RESPONSIBILITIES (i.e., no cost to MARAD):

- * Removal of hazardous materials (solvents, flammable wastes,

etc.) from the vessel.

- * Removal of museum displays installed by PPA; dispose of boat displays currently on board SAVANNAH.
- * General cleaning of spaces utilized by PPA.
- * Sound and record all tanks; secure all manhole covers.
- * Retrieve "deadman anchor" and restore starboard anchor and chain.
- * Close tween deck hatches.
- * Restore all bulkhead accesses and penetrations made by PPA.
- * Restore all shell accesses and penetrations made by PPA.

o PREPARATION FOR TOW--MARAD RESPONSIBILITIES:

- * Make necessary arrangements with NRC to reissue "possession only" license to MARAD, with authority to relocate from Patriots Point to repair yard to JRRF.
- * Verify rudder and shaft locks.
- * Secure and clean lifeboats.
- * Secure cargo gear.
- * Prove anchor windlass.
- * Secure and make weathertight all cargo hatches and weather doors.
- * Secure refueling gear and any other Government-owned equipment including conex boxes in cargo holds.
- * Plug all deck drains.
- * Oversee towing contractor's performance from Patriots Point to delivery to repair yard.

o HULL MAINTENANCE AND REPAIR

- * Publish Commerce Business Daily (CBD) announcement.
- * Obtain and contract with general agent holding a MARAD Master Lump Sum Repair Agreement to accomplish MARAD's responsibilities in preparation for tow; oversee maintenance and repairs in a commercial ship repair yard; contract for radiological health physics oversight if not otherwise available in repair yard.

- * Deliver SAVANNAH to JRRF.
- * Establish safety review and audit committee at JRRF as required by NRC.

ESTIMATED COST OF MAINTENANCE AND REPAIR

Preliminary estimates, for planning purposes, indicate that the total cost to MARAD, exclusive of those items identified as PPA responsibilities, will be in the range of \$1,250,000 to \$1,500,000.

The range of this estimate reflects the uncertainty of the extent of hull steel replacement which can be determined only in the drydock.

POTENTIAL OPTIONS FOR LONG-TERM DISPOSITION OF N.S. SAVANNAH

At the time of the decision in 1970 to decommission N.S. SAVANNAH, it was recognized that there was essentially no applicable experience on which to estimate the cost of a long-term or permanent disposal of the vessel; i.e., SAVANNAH was the world's first commercial nuclear powered ship put into service and also the first to be decommissioned. It was decided that SAVANNAH should be defueled, and all readily disposable radioactive sources should be removed from the vessel. Accordingly, such sources of high radiation as radioactive purification resins, contaminated fluids including the water in the primary nuclear system and the reactor fuel elements were removed and shipped away to available approved land-based disposal facilities.

- o ENTOMBMENT OPTION: The remaining hardware (reactor pressure vessel, steam generators and piping, core structure within the reactor vessel, etc.) was left entombed within the ship's reactor compartment, itself protected by the ship's collision barriers and several feet of concrete shielding, which was sealed off to prevent inadvertent exposure of museum personnel or visitors. The "entombment" option has been employed as an interim means of disposal of land-based nuclear power reactors, deferring to the future a permanent disposal of all radioactive materials not readily disposable at time of the decommissioning.
- o STORAGE PENDING FINAL DISPOSITION OPTION: Early nuclear powered submarines were decommissioned and permanently disposed of in deep ocean trenches. This option has since been outlawed by international convention. The permanent disposal option, therefore, requires cutting up and shipping highly radioactive parts and pieces of the remaining reactor hardware, a process which requires a large investment of funds and risk of high radiation exposure to large numbers of workers. Both the cost and cumulative risk of radiation

exposure are reduced somewhat by deferring the disposal; i.e., radiation levels are gradually reduced by the process of radioactive decay. More important is the fact that land-based nuclear power stations reaching the end of their useful life over the next one or two decades will spawn a reactor disposal industry which should provide facilities and experience applicable to the eventual disposal of N.S. SAVANNAH. Accordingly, it is recommended that this option be deferred at least another 10 to 15 years.

QUESTION 1: When was the last time that MARAD evaluated the Merchant Marine Academy for operational efficiency? Please provide the Subcommittee with a copy of any such report.

ANSWER: The USMMA is regularly reviewed by MARAD, particularly in relation to planning, budgeting and operations processes. In addition, the DOT Inspector General has within the last four years audited contractor advisory and assistance services, management reporting of accounts receivable, food service operations, imprest funds, travel activities, and MARAD's control of USMMA graduates (ongoing). In 1993, an independent entity studied the Infirmary Management and the U.S. Coast Guard performed a medical care quality assurance study. Copies of these studies are attached.

The Academy is regularly reviewed by program and institutional accrediting commissions--ABET, the Accreditation Board for Engineering and Technology, and the Middle States Association of the Commission on Higher Education. (Copies of recent reports from both are attached.) Both organizations require thorough self-evaluation programs. The quality of the programs is measured in terms of the outcome (success) of the program and in terms of inputs such as faculty, library, etc. Failure to meet the standards of accreditation can lead to the institution being placed on probation, or in the worst case, to the institution losing its accreditation.

QUESTION 2: Please provide an organizational chart for the Merchant Marine Academy that provides the staffing levels for each department or office broken down by instructional staff; maintenance, repair, and operating staff; and program direction and administration staff. Please provide a description of the functions of each office or department.

ANSWER: The USMMA organization chart and financial descriptions are included in Attachment 1 (MAO-150-1). The staffing levels for each major Division broken down by instructional staff, maintenance, repair and operations and program direction and administration are provided on Attachment 2.

QUESTION 3: Please provide a copy of the capital and operating program budget for the Merchant Marine Academy that includes a breakdown by instructional staff; maintenance, repair, and operating staff; and program direction and administration staff.

ANSWER: The FY 1994 capital and operating program budget for the USMMA is:

\$12,629,300	Salaries and Benefits
50,000	Terminal Leave
175,000	Overtime and Differential Pay
155,000	SES and GS Awards
300,000	Four Reimbursable Billets to USN & USCG
304,000	Midshipmen Travel
55,000	Staff Travel
10,262,000	Base Operating Program. Includes:
	(\$1,306,666 - Program Direction and Administration)
	(\$4,190,000 - Maintenance, Repair and Operations)
	(\$1,033,822 - Instructional Program)
	(\$3,731,500 - Midshipman Program)
1,850,000	Facility Plan (Deferred Maintenance)
2,700,000	Heating Plant Replacement
500,000	Radar Simulation Equipment
\$29,362,000	Total FY '94 Budget Allocation

Note: In addition, \$1,057,000 is available from FY 93 for the Heating Plant - project delayed by vendor protest.

QUESTION 4: Please provide the salaries (including wages and benefits) for the Superintendent, Deans, and other Administrative supervisory personnel.

ANSWER: The salaries of the Superintendent, Dean, and other Administrative supervisory (GS/GM 13 and above) personnel are listed on the attachment to question 4.

QUESTION 5: What is the projected budget for the Athletic Department for FY 1995?

ANSWER: There is not a separate Athletic Department but rather a single Department of Physical Education and Athletics. The total budget for Athletics for FY 1995 is projected to be \$1,093,558, with \$888,875 (81.28%) of the total to be derived from non-appropriated sources and \$204,683 (18.72%) coming from Federal appropriations. The Department has the responsibility for providing the required curriculum in physical education, elective courses, training to meet physical requirements, intramural activities and intercollegiate athletics.

QUESTION 6: In FY 1995 it will cost approximately \$30,000 to train, feed, and house each cadet, while at one of the State Academies it may cost \$18,000. How do you account for this difference in costs?

ANSWER: The "Cost per Graduate" at the USMMA is computed according to the General Accounting Office (GAO) approved methodology for calculating education and training costs at the Federal Academies. GAO in 1975 recommended that all of the Academies develop a standard methodology. It would be difficult to compare our costs with costs at any one of the state academies without their budget detail, which we do not have, and an understanding of the way they calculate their cost per graduate.

Using the GAO approved methodology, the USMMA Cost per Graduate for Academic Years 1989-93 was:

<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
\$97,000	\$89,700	\$106,800	\$108,100	\$91,081

Note: Cost per Graduate figures are a function of graduating class size.

QUESTION 7: What is the average class size at the Academy?

ANSWER: For the academic quarter that ended March 25, 1994, the average classroom size was 25. This is consistent with historical experience.

The average size of each total class varies with attrition. Currently there are 222 midshipmen in the class of 1994, 245 midshipmen in the class of 1995, 228 midshipmen in the class of 1996 and 244 midshipmen in the class of 1997.

QUESTION 8: What is the student/faculty ratio at the Academy?
How does this compare to the student/faculty ratio
at similarly sized state and private colleges?

ANSWER:

<u>Comparison</u>	<u>Student/Faculty Ratio</u>	<u>Average Class Size</u>
USMMA	13.0 to 1	25.0
Colleges of 800-1200 Students (a)	12.8 to 1	20.5
Federal Service Academies	8.5 to 1	16.4
Maritime Colleges/ Academies	13.5 to 1	23.8
Engineering/Technical Colleges	10.8 to 1	27.0

Source: Barron's Profiles of American Colleges, 19th
Edition.

(a) Note that there is no source providing such statistics for all U.S. institutions. The data were calculated for all of the colleges in this size range in the multi-state region covered by the Middle States Accreditation Association which includes the Academy. Because of the way the data are reported, the average class size tends to be slightly underestimated.

The data pertain to enrollments on opening day. Over the course of the academic year, enrollments naturally decline so that the Student/Faculty Ratio falls.

QUESTION 9: The Merchant Marine Academy proposes to have 65 individuals employed in program direction and administration in FY 1995. How does the size of this staff compare to the size of the Administrative staff of a private college of similar size?

ANSWER: The number of individuals employed in program direction and administration at the USMMA is 71. It is difficult to compare this to a private college of similar size since our program includes a regimental program with clothing, lodging and feeding responsibilities that are legally mandated for all midshipmen and are not applicable to another college. Comparable data is not available to us.

QUESTION 10: How much does the Academy receive in tuition and fees from continuing education and other programs? Into which account are these funds deposited and what are they used for?

ANSWER: For the year ending December 31, 1993, Continuing Education received \$374,806 in course fees; \$158,205 in transportation costs, meals and lodging charges; and \$4,293 in miscellaneous income. The total fees received amount to \$537,304. Transportation, meals and lodging charges are collected as a pass through with monies going to hotels, food suppliers, etc. The primary use of course fees is to pay for instruction. In addition, Continuing Education received \$315,000 from MARAD to run the National Sealift Training Program and the diesel courses.

The program in Continuing Education is a not-for-profit operation. Revenues are structured in order to cover costs. The program pays the Academy for services rendered. It is self-supporting.

QUESTION 11: How many on-the-road vehicles does the Academy own or operate? Please provide a breakdown by type.

ANSWER: The Academy has nine "on-the-road vehicles" which includes eight vans leased from GSA that are used primarily to transport midshipmen, and one five-passenger automobile. The Academy has an additional 15 vehicles for on-grounds, operational use only, including a mail van, repair trades vehicles, security vehicle and two rack trucks.

QUESTION 12: How much is spent annually for the travel and transportation of students and staff of the Academy?

ANSWER: The total travel and transportation budget for students and staff at the USMMA in the current year is \$359,000. (\$304,000 for students, \$55,000 for faculty and staff.)

QUESTION 13: On average, how many hours per week do instruction staff members teach or hold conferences with students? How does this compare to the number of hours private or state college instructors teach or hold conferences with their students?

ANSWER:

- A. Hours taught per week (excluding student conferences):

USMMA	11.6
U.S. average	10.8

The U.S. average is taken from "The American College Teacher: National Norms for the 1991-1992 H.E.R.I. Faculty Survey", published by the Higher Education Research Institute, UCLA, Los Angeles. The data pertain to four-year colleges, private and public. These institutions are predominantly undergraduates, but some have master's degree programs. Consequently, the U.S. average is likely to be a slight understatement of undergraduate teaching loads.

A slight majority of USMMA Midshipmen major in Engineering and the average faculty member in that department teaches 13.6 hours per week. Data for the six colleges in New York that are similar to the USMMA program show that their engineering faculty average 11.3 hours per week of teaching.

- B. Time spent conferences with students:

The Academy requires one hour of office time scheduled per week per course taught, so that the typical faculty member has 3-4 scheduled office hours per week. Of course, students consult with faculty outside scheduled office hours. Comparative data for other colleges is not available to us.

QUESTION 14: How many hours per week do instructional staff members spend on academic research? How does this compare to the number of hours private or state college instructors spend on academic research?

ANSWER: The Academy has no precise data on time spent on research by its faculty. Nationally, using the Higher Education Research Institute data referred to in the previous question, the average faculty member spends roughly 3.0 hours per week on research.

The Academy expects faculty to engage in professional development which includes scholarly research, textbook writing, attendance at professional conferences, participation in teaching workshops, etc. The emphasis is not on basic research that expands the frontiers of knowledge, but activities that impact upon the classroom and the ability of the Academy to meet its mission through faculty professional growth.

ADDITIONAL INFORMATION APPENDED
TO MARAD RESPONSES
RETAINED AT THE SUBCOMMITTEE ON MERCHANT MARINE

- (1) REPORT ON THE AUDIT OF MANAGEMENT AND REPORTING OF ACCOUNTS RECEIVABLE, #AV-MA-2-028, July 13, 1992
- (2) REPORT ON AUDIT OF IMPREST FUND U.S. MERCHANT MARINE ACADEMY KINGS POINT, NEW YORK, #R2-MA-3-045, September 17, 1993
- (3) REPORT ON DEPARTMENTWIDE AUDIT OF CONTRACTED ADVISORY AND ASSISTANCE SERVICES, OFFICE OF THE SECRETARY, #AV-OT-4-007, January 14, 1994
- (4) REPORT ON AUDIT OF FOOD SERVICE OPERATIONS U.S. MERCHANT MARINE ACADEMY, #R2-MA-3-043, September 15, 1993
- (5) REPORT ON THE AUDIT OF MANAGEMENT OF TRAVEL ACTIVITIES U.S. MERCHANT MARINE ACADEMY KINGS POINT, NEW YORK, R2-MA-4-013, March 24, 1994
- (6) HEALTH SERVICES QUALITY ASSURANCE SURVEY REPORT, Prepared by the U.S. Coast Guard, June 1993
- (7) Various correspondence relating to Kings Point accreditation requirements
- (8) REPORT ON THE ANALYSIS OF OPERATING AND FINANCIAL PERFORMANCE OF THE U.S. MERCHANT MARINE ACADEMY INFIRMARY, Deloitte & Touche, June 1993
- (9) Maritime Administrative Orders No. 150-1 and Amendments 1-3
- (10) U.S. Merchant Marine staffing levels and salaries



Federal Maritime Commission
Washington, D.C. 20573

Office of the Chairman

March 24, 1994

The Honorable William O. Lipinski
Chairman, Subcommittee on Merchant Marine
House Committee on Merchant Marine and Fisheries
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Lipinski:

This is in response to your letter of March 11, 1994, requesting additional answers for the hearing record. Enclosed are the answers to the questions. This material has been submitted to the Editor of the Committee for the printed hearing record.

If you have any questions, please contact me.

Sincerely,

Bill

William D. Hathaway
Chairman

Enclosure

1. How will the curtailment of investigative manpower, training, and travel impact FMC's ability to identify and collect penalties on violations of shipping regulations and laws?

Lower funding levels for our enforcement program simply translate into less enforcement. The current level of FTEs and our lack of flexibility to provide appropriate funding for support of enforcement activities will make it extremely difficult to maintain our high standards. Difficult decisions will continue to be required regarding the number and depth of our enforcement initiatives, as the lack of staff and collateral funding forces the Commission to limit its scope. This translates into the sacrificing of promising leads for other, higher priority investigations. As the result of travel fund limitations, certain investigatory travel cannot be accomplished. Within the framework of a broad-based, inclusive enforcement effort, these problems multiply, and they ultimately diminish the quantity and quality of our undertakings.

In FYs 1990 and 1991 we collected over \$44,000,000 in civil penalties as the result of the Commission's enforcement efforts in the largest U.S. trade, the transpacific. Inasmuch as some major trades are substantially in compliance as a result of our past efforts, collections in the near future are not expected to achieve the levels of those in FYs 1990 and 1991. However, as the maritime industry sees less enforcement taking place, the temptation to attempt malpractices rises, and trades in which we have been able to restrain widespread malpractices may again become problems, leading to inequitable trade conditions for U.S. interests. In that event, the Commission would be severely disadvantaged, because of funding and FTE limitations, in its ability to respond aggressively to such activities.

This raises concerns about the continued viability of the Commission's enforcement efforts, and, indeed, all of the Commission's activities in support of its statutorily mandated responsibilities.

2. Are government owned fleets (controlled carriers) engaged in predatory pricing to generate hard currency for their countries? Are there any practices occurring which have the effect of circumventing U.S. laws pertaining to controlled carriers?

The Commission's monitoring of controlled carrier activities, in particular pricing practices, has not revealed any recent predatory pricing. Competitors of controlled carriers, the ones who stand to be harmed directly by such practices, generally have not complained about controlled carrier pricing. In response to one informal allegation, the Commission's staff is currently examining the pricing practices of China Ocean Shipping Company ("COSCO"), the national-flag line of the People's Republic of China. A preliminary analysis of data regarding COSCO's pricing on refrigerated cargo to the Far East has proved inconclusive but the staff is continuing to develop and analyze additional data.

The Commission has noticed in the last several years that state-owned fleets, particularly those of the former Soviet Union, have begun to "flag out" vessels, i.e., register vessels in other countries. While it appears that this practice is primarily intended to aid state-owned carriers in securing financing from western banks to underwrite the renewal of their aging fleets, it also has allowed several state-owned or controlled carriers to avoid the proscriptions of the controlled carrier legislation, which makes flag of registry determinative of controlled carrier status.

3. Could you please provide the Subcommittee with a list of controlled carriers including vessels which may be operating under the flag of another country?

The carriers currently on the Commission's controlled carrier list are as follows:

Baltic Shipping Company - Russia
 Bangladesh Shipping Corp. - Bangladesh
 Black Sea Shipping Company - Ukraine
 Black Star Line - Ghana
 Ceylon Shipping Corporation - Sri Lanka
 China Ocean Shipping Co. - People's Republic of China ("PRC")
 China Resources Transportation & Godown Co., Ltd. - PRC
 Chu Kong Shipping Co., Ltd. - PRC
 Compagnie Maritime Zairoise - Zaire
 Compagnie Marocaine de Navigation (COMANAV) - Morocco
 Compagnie Nationale Algerienne de Navigation - Algeria
 Companhia de Navegacao Lloyd Brasileiro - Brazil
 Compania Anonima Venezolana de Navegacion - Venezuela
 Compania Peruana de Vapores (Peruvian State Line) - Peru
 Egyptian National Line - Egypt
 Far East Enterprising Co. (H.K.), Ltd. (Farenco) - PRC
 Far Eastern Shipping Company - Russia
 Flota Bananera Ecuatoriana S.A. - Ecuador
 Guangdong International Shipping Co., Ltd. - PRC
 International Transport Enterprise Co. (GETDD) Ltd. - PRC
 MISR Shipping Company - Egypt
 Murmansk Shipping Company (Arctic Line) - Russia
 National Shipping Corporation of the Philippines - Philippines
 Nauru Pacific Line - Nauru
 Nigerian National Shipping Line Limited - Nigeria
 P.T. Djakarta Lloyd - Indonesia
 Pakistan National Shipping Corporation - Pakistan
 Pharaonic Shipping Co. (S.A.E.) - Egypt
 Polish Ocean Lines - Poland
 Romanian Shipping Company Constanta (NAVROM) - Romania
 Shanghai Hai Hua Shipping Company - PRC
 Shipping Corporation of India - India
 Societe Nationale Malgache de Transports Maritimes - Madagascar
 Sudan Shipping Line Limited - Sudan
 Tientsen Marine Shipping Company - PRC
 Transportes Navieros Ecuatorianos (Transnave) - Ecuador
 Zhu Sheng Transportation Co., Ltd. - PRC

Since enactment of the controlled carrier provisions, several state-owned or controlled carriers have not been classified as controlled because they did not operate any vessels registered in the state that owned or controlled them. China National Foreign Trade and Transportation Corporation, a state-owned PRC carrier, is not classified as a controlled carrier because it operates no Chinese-flag vessels in the U.S. trades, preferring instead to charter vessels on the spot market to meet its needs. Similarly, a Chilean Government-owned carrier, Empremar, was dropped from the

Commission's list because it ceased using Chilean-flag vessels and chartered foreign-flagged vessels for its U.S. services. More recently, Baltic Shipping Co. (U.S.A.), Inc., a U.S. corporation, but 80 percent owned by Baltic Shipping Co., a controlled carrier owned by the Russian Government, was not classified as controlled because it uses no Russian-flagged vessels on its U.S. trade routes.

In addition, a number of controlled carriers have reflagged small portions of their fleet. The Russian carriers, Baltic Shipping Co. and Black Sea Shipping Co., have reflagged some vessels in Cyprus and Malta. China Ocean Shipping Co. operates five vessels registered in Panama. Polish Ocean Lines, although still employing two Polish-flag vessels in its U.S. Gulf service, operates no vessels in its North Atlantic service, choosing instead to charter space aboard the vessels of other carriers serving the trade.

4. Should carrier conferences be allowed to set maximum cargo volumes for service contracts?

Currently conferences do not, in general, set maximum cargo volumes for service contracts. However, there are some contracts between the Trans-Atlantic Agreement and non-vessel-operating common carriers ("NVOCCs") which contain maximum cargo volumes. But, the Commission has not received any complaints about this practice from NVOCCs. Overall, the overwhelming majority of contracts between shippers and conferences do not contain maximum cargo volumes. Thus, it is not currently an issue between shippers and carriers.

However, carriers are not barred in the Act from setting maximum cargo volumes. Section 8(c)(3) of the Shipping Act of 1984, 46 U.S.C. app. 1707 (c)(3), identifies minimum cargo volume as an "essential term" of each service contract. However, the 1984 Act is silent on the matter of maximum cargo volumes.

Unless some serious malpractices crop up, it does not appear to be a good idea to prohibit cargo maximums from service contracts. Service contracts are based on negotiations between carriers and shippers. For these contracts to be as efficient as possible, it is preferable to allow the parties to determine the parameters of their negotiations with the least possible interference. It may be that some shippers are interested in agreeing to a maximum cargo volume if some concession is granted by the conference. The shipper may be very flexible in his shipping schedule and this would allow the conference carriers to better plan on capacity needs.

Moreover, a prohibition of maximum cargo volumes would not only thwart the parties from finding possible efficiencies in their relationship, but could result in unintended consequences. For example, carriers may find themselves in a situation in which capacity is getting tight. One method of dealing with this is to set more precise cargo commitments by using maximum cargo volumes so that those shippers which need to be assured of space would pay a premium for an open ended commitment from the carrier. If prohibited from writing cargo volume maximums to efficiently allocate scarce cargo space among the competing users, the carriers might resort to shortening the life of the contracts they write. This result would increase the transactions costs of negotiations and likely be a much less efficient method of allocation of cargo space.

The service contract provision of the Act is intended to allow flexibility to shippers and carriers in determining the price and service needs of individual shippers. Unless serious malpractices by carriers are found to be occurring, it is best to minimize the degree to which the Act interferes with that process.



Federal Maritime Commission
Washington, D.C. 20573

Office of the Chairman

March 24, 1994

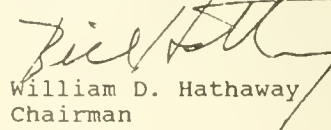
The Honorable Owen B. Pickett
United States House of Representatives
2430 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Pickett:

During my testimony before the Subcommittee on Merchant Marine on March 9, 1994, you requested that I provide you with the details of Section 19 actions that the Federal Maritime Commission has taken against Japan, Taiwan, the People's Republic of China, and Korea. I am enclosing for your information the details of these actions. This material has also been submitted to the Editor of the Committee for the hearing record.

Please feel free to call me if you have any questions.

Sincerely,


William D. Hathaway
Chairman

Enclosure

FEDERAL MARITIME COMMISSION

TRADE ACTIONS

JAPAN

Docket No. 91-19 - Actions to Address Adverse Conditions Affecting United States Carriers That Do Not Exist For Foreign Carriers in the United States/Japan Trade, 25 S.R.R. 1428 (April 15, 1991).

On October 18, 1990, the Commission issued an Order under the Foreign Shipping Practices Act of 1988, requiring Japanese and United States carriers serving the U.S./Japan trade to provide information concerning certain charges imposed on carriers serving Japanese ports, which were paid into a fund known as the Harbor Management Fund ("Fund"). The Commission sought evidence regarding: (1) the involvement of the Government of Japan with the Fund; (2) the Fund's origin; (3) its purposes, uses and funding; (4) the Fund's effect on carriers; and (5) any disparate impact on U.S. carriers vis-a-vis Japanese carriers.

Based on the responses to this Order, the Commission issued a Notice and Order of Investigation on April 15, 1991, which initiated a formal investigation into the matter. The Commission's final decision was due by August 13, 1991. However, on June 13, 1991, the Commission discontinued the proceeding based on the June 6, 1991, U.S. and Japanese-flag carrier Joint Motion. The Motion stated that a new agreement had been reached between the Japan Harbor Transportation Association and the Japan Foreign Shipowners Association that substantially removed the ongoing adverse effects of the Fund on U.S. carriers. In addition, the Japanese Minister of Transport gave assurances that the Fund would be discontinued by March 31, 1992.

As a condition of the proceeding's discontinuation, however, the Commission required substantial reporting in order to closely monitor the Fund, especially regarding assurances that assessments collected during the Fund's final contract year would be used for labor-related purposes that would benefit U.S. carriers that paid those assessments.

Based on periodic reports filed by the carrier parties, the Commission determined that the conditions that were the basis for discontinuance essentially had been met. At present, however, very little of the money collected during the Fund's final contract year has been spent. Accordingly, the Commission continues to monitor allocations and expenditures by the Fund through quarterly reports received from the Japanese carrier parties.

91-44).

TAIWAN

Docket No. 91-44 - Actions to Address Adverse Conditions Affecting United States Carriers in the United States/Taiwan Trade, 25 S.R.R. 1690 (October 11, 1991).

The Commission issued a Notice and Order of Investigation under the Foreign Shipping Practices Act of 1988 on October 11, 1991, based on information obtained in response to two information demand orders issued subsequent to the discontinuation of prior proceedings in 1989 (see below, Docket No. 89-16, Actions to Address Adverse Conditions Affecting United States Carriers That Do Not Exist for Foreign Carriers in the United States/Taiwan Trade). The Order designated five major issues: (1) the operation of off-dock container terminals being subject to land area and third-party container handling restrictions; (2) prohibitions on U.S. carriers obtaining trucking licenses; (3) requirements that chassis registration include listing the authorized user of the chassis, which user may not be a U.S. carrier; (4) problems in the processing of U.S. carrier applications for authority to lease empty containers or to engage in the business of leasing containers; and (5) requirements that applicants for licenses to operate a shipping agency in Taiwan must first produce contracts with intended customers. Pursuant to the statutory time limit for FSPA proceedings, a decision date was set for February 13, 1992.

Comments filed in response to the Notice and Order of Investigation indicated that substantial progress had been achieved on most issues. The status and interpretation of the trucking amendment liberalizing Taiwan's Highway Law, however, remained unclear. The Commission, therefore, granted a 90-day extension for a decision, principally to allow time for the parties to clarify the legal status of the amendment and prospects for eventual passage.

On May 13, 1992, the Commission discontinued the proceeding. In comments submitted to the Commission, the U.S. carriers stated that although the proposed trucking amendment had still not been enacted, they did not intend at that time to engage in regular trucking operations in Taiwan even if the restrictions were removed, and that they felt sanctions were unwarranted. The Commission agreed that in light of these sentiments, the satisfactory resolution of the majority of the issues raised in the proceeding, and the pendency of apparently corrective legislation on the trucking issue, discontinuance was warranted.

The Commission did, however, determine that the situation required further monitoring. By separate Orders of May 13, 1992 and December 22, 1993, the Commission required that U.S. and Taiwan carriers in the trade report, with relevant documentation, on the status of any laws, rules, regulations, policies, or practices that operate to prevent U.S. carriers from engaging in trucking their own containers. The Commission also sought information regarding any developments affecting restrictions on U.S. carriers' ability to truck containers belonging to third parties.

The carriers' reports, submitted in response to the Commission's Information Orders, indicated that the Taiwan Executive Yuan passed a proposed amendment to the Taiwan Highway Law to allow U.S. carriers to truck their own containers in Taiwan. This amendment was forwarded to the Legislative Yuan, but the amendment was not enacted. Notwithstanding the lack of legislation, the Taiwan carriers reported that the Taiwan Executive Yuan was doing everything it could to urge the Legislative Yuan to expedite enactment of the amendment. Further, the U.S. Department of State informed the Commission that Taiwan authorities intend to liberalize fully Taiwan trucking laws, including the trucking of third-party containers, by August 1, 1995, and that appropriate proposals to that effect will be submitted to the Legislative Yuan in September, 1993.

Because anticipated legislation to remedy trucking restrictions that adversely affect U.S. carriers in the Taiwan trade had not been enacted, and no definitive schedule for passage of this legislation existed, the Commission determined to monitor the situation by requiring U.S. and Taiwan carriers to file reports by June 21, 1993, on the status of the pending legislation.

The carriers' June reports generally indicated that the legislation to amend the Taiwan trucking laws remained pending. The Commission continues to monitor developments regarding the proposed legislation.

PEOPLE'S REPUBLIC OF CHINA

Docket No. 91-31 - Actions to Address Adverse Conditions Affecting United States Carriers in the United States/People's Republic of China Trade, 25 S.R.R. 1572 (July 22, 1991).

On January 29, 1991, the Commission issued Information Demand Orders to U.S. and People's Republic of China ("PRC") carriers operating in the U.S./PRC trade. At issue were concerns that U.S. carriers were: (1) precluded from conducting normal business activities through their offices in the PRC; (2) precluded from assessing lawful rates and effecting rate increases necessary for efficient operation in the PRC trade; (3) not permitted to own or operate dockside equipment or facilities, or to control terminal facilities; (4) precluded from operating trucking services and inland container yard and container freight station terminals, conducting warehousing activities, or providing services as a dockside entity; and (5) assessed disproportionately high charges in the course of business operations in the PRC or were assessed discriminatory charges vis-a-vis PRC carriers. Based on the information received, the Commission issued a Notice and Order of Investigation on July 22, 1991, under the Foreign Shipping Practices Act of 1988, that directed the parties to furnish further information about the above issues. A decision date was set for November 22, 1991.

Review of the comments submitted in the proceeding reflected a wide range of

opinion and argument as to the existence and effect of PRC restrictions on U.S. carrier operations in the trade. Further, during commercial and intergovernmental discussions on October 15-16, 1991, and October 22-23, 1991, respectively, the PRC made a significant number of commitments that, if effected, could substantially alleviate the burdens alleged by the U.S. carriers. On November 21, 1991, the Commission concluded that these commitments potentially altered PRC trade practices and restrictions, such that the record of the proceeding no longer presented a timely portrait of the evolving trade conditions. The Commission therefore extended the proceeding 90 days to February 19, 1992.

During the extension period, additional comments filed indicated that the PRC had made significant concessions and authorizations regarding branch office matters, feeder vessel operations, container yard and container freight station operations, and issued new regulations to equalize port and handling fees. U.S. carriers reported that they were satisfied with the status of most matters and recommended termination of the proceeding. The only unresolved issue remaining was trucking and, while it appeared no resolution was imminent, U.S. carriers had not pursued their complaints about trucking since the November 21, 1991 extension. In light of these developments, the Commission discontinued the proceeding in February 1992. However, because of the Commission's continuing interest in PRC trade practices generally, the Commission issued a separate Order Requiring Information directing all parties to report on future conditions on September 1, 1992, and again on March 1, 1993.

The first round of reports indicated that the U.S. carriers had obtained substantial relief from the more onerous restrictions, i.e., branch office operations, port services fees, and doing-business costs. The U.S. carriers, however, voiced concern that the trucking issue remained unresolved. The U.S. carriers also reported that their PRC agent was collecting the U.S. carrier tariff rates, but was not collecting the full tariff rates from other carriers it represented in the trade. This reportedly put the U.S. carriers at a competitive disadvantage and frustrated their hard-won commitment from the PRC Government to ensure observance of the U.S. carriers' tariffs.

The Commission held this case in abeyance for a period of time to allow Commission staff to discuss and exchange views and information with the Maritime Administration and the Department of State. Furthermore, to develop information on the tariff recognition issue, the Commission, on February 10, 1993, issued an order requiring the foreign-flag members of the Asia North America Eastbound Rate Agreement ("ANERA"), the conference serving the outbound trade from the PRC to the United States, to report by March 1, 1993, on their experiences with PRC agents. Contemporaneously with the ANERA Order, the Commission also ordered the U.S. and PRC carriers, with a particular emphasis on Sinotrans, which had not filed a report in September 1992, to provide by March 1, 1993, the current status of the five designated matters described in the Commission's February 19, 1992 Order. The March 1 date for reporting was extended to March 16, 1993.

The second round of reports confirmed that the U.S. carriers obtained substantial relief from PRC restrictions on branch office operations, port service fees, and doing-business costs. The U.S. carriers still remained concerned about two issues that were outstanding: their inability to engage in trucking operations within the PRC and their inability to collect their tariffed rates in the PRC trade.

Subsequent to the second round of reports, Sea-Land Service, Inc. informed the Commission that its application for a trucking license in Quangdong province was approved at the end of March. As trucking was of immediate concern only to Sea-Land, American President Lines, Ltd. having no plans to initiate trucking operations in the PRC, one of the two outstanding issues was resolved.

The last remaining issue, tariff recognition, was a major point of discussion between the United States and the PRC during bilateral talks held in the summer and fall of 1993. The Commission was informed by the U.S. Maritime Administration, the lead U.S. agency for the talks, that, during the November session, the PRC Government made a commitment to ensure that lawfully filed tariffs of not only U.S. carriers, but other foreign carriers, would be honored by PRC agents. The Commission also was informed that the U.S. carriers were satisfied generally with the results of these talks. Thus it would appear that the last remaining issue has been resolved.

KOREA

Docket No. 91-24 - Actions to Adjust or Meet Conditions Unfavorable to Shipping in the United States/Korea Trade, 26 S.R.R. 585 (November 13, 1992).

Since 1987, the Commission has been monitoring commercial and intergovernmental negotiations over practices in the U.S./Korea trade that have restricted the operations of U.S.-flag carriers. The Commission issued Information Demand Orders regarding Korean restrictions on April 14, 1987 (see below, Inquiry Into Laws, Regulations and Policies of the Republic of Korea Affecting Shipping in the United States/Korean Trade, Section 15 Orders).

Notices requesting supplemental information were issued March 28, 1988, and August 23, 1988. Information Demand Orders pursuant to both the Foreign Shipping Practices Act of 1988 and the Shipping Act of 1984 were issued November 29, 1990. On the basis of information reported and comments received, the Commission concluded that action under section 19(1)(b) of the Merchant Marine Act, 1920, could no longer be postponed, despite the commercial and governmental efforts expended, assurances made, and time elapsed.

The Commission issued a Notice of Proposed Rulemaking on June 7, 1991. The Commission found that U.S. carriers appeared to be precluded from trucking activities in Korea and from directly contracting for Korean rail services as part of their intermodal

operations. The Notice proposed a \$100,000 per voyage fee on certain Korean-flag carriers delivering cargo to or receiving cargo at U.S. ports. Comments on the Proposed Rule were due by August 2, 1991. At the request of one of the U.S. carriers, the Commission extended the comment period to September 16, 1991, to allow the parties to clarify the understanding regarding trucking and rail issues reached during discussions between the U.S. and the ROK on July 8-9, 1991.

On the basis of comments made and agreements reached in the course of those negotiations and on the recommendation of the affected U.S.-flag carriers, the Commission issued a Request for Additional Comment on October 30, 1991. This Request held further action in the proceedings in abeyance to ensure the implementation of commitments already made and to monitor the progress resulting from further discussions planned for 1992. The Request called for comments by February 3, 1992, concerning rail contracting authority and local trucking in the city and port of Pusan. Comments on any updates or additional information were due May 29, 1992.

The comments from the two Korean carriers reported that liberalization had been proceeding as provided for in the Agreed Minutes of the July 1991 discussions. The two U.S. carriers, Sea-Land and American President Lines, reported that rail and local Pusan trucking access had been granted, as promised. However, Sea-Land complained that despite assurances that there would be no limitations on its traffic, it was being treated as a "new user" and allocation of rail space had been limited accordingly. In addition, both U.S. carriers complained that, while trucking licenses were available within the local Pusan area, it was not economical for them to engage only in local trucking activities. Therefore, neither carrier had applied for a license.

On June 25, 1992, the Commission issued a Second Request for Additional Comment to allow parties to address intergovernmental discussions scheduled for July 1992. Comments were due by August 12, 1992. Discussions were in fact held in July and August 1992. The two delegations eventually agreed that the ROK Government would take all necessary steps to open fully its trucking market to the U.S. carriers by March 31, 1994. This, it was agreed, would in turn improve the U.S. carriers' rail access. ROK Government also agreed to revise the rail space allocations system.

Accordingly, the U.S. carriers requested that the Proposed Rule be adopted, but, in light of the recent commitments, that the implementation of sanctions be stayed conditionally. The Korean carriers urged that the proceeding be discontinued inasmuch as matters allegedly were resolved.

The Commission on November 13, 1992, issued a Final Rule partially adopting the Proposed Rule, finding that Korean restrictions preclude U.S. carriers in the trade from engaging in trucking activities in Korea. In light of the new Korean commitments, however, the \$100,000 per voyage sanctions were imposed but suspended until June 1, 1994, while the Commission periodically reviewed the need for such sanctions in light of

progress achieved in implementing the commitments. The Commission also prescribed a schedule for periodic reporting by the affected carriers, in order to apprise the Commission of ongoing developments. On February 4, 1993, the Commission amended its Final Rule to add Cho Yang Line to the list of Korean-flag carriers subjected to reporting requirements and potential fees.

In three rounds of reports submitted since the Commission issued its Final Rule, the carriers reported that the ROK Government has been adhering to the timetable established for opening the trucking market in Korea, and that U.S. carriers had gained better access to rail space under a revised allocation system.

In their latest reports, the Korean carriers argued that, since impediments to trucking and rail access had been, or will be, removed, the Commission should withdraw its Final Rule and discontinue the proceeding. The Commission determined not to discontinue its proceeding, viewing the Korean carriers' request as premature. The Commission reasoned that the last required reports, due May 1, 1994, will provide the Commission with the U.S. carriers' latest assessment of any remaining impediments to participating in the Korean trucking market, and that this will allow a more informed decision regarding the continued need for the Final Rule and pending sanctions.

Docket No. 92-42 - Actions to Adjust or Meet Conditions Unfavorable to Shipping in the United States/Korea Trade, 26 S.R.R. 591 (November 13, 1992).

In response to a Petition (No. P2-92) filed by Direct Container Line, Inc., a non-vessel operating common carrier ("NVOCC") in the U.S. outbound trade, the Commission issued a Final Rule on November 13, 1992, under section 19(1)(b) of the Merchant Marine Act, 1920. The Petition alleged that Direct Container Line had been unable to establish a branch office in Korea as a result of the Korean Maritime Transportation Business Act. This Act prohibits non-Korean citizens from owning more than a minority interest in such maritime-related enterprises.

The Commission found that the provisions of the Act created conditions which: (1) precluded or tended to preclude non-Korean NVOCCs and freight forwarders from competing in the U.S./Korean trade on the same basis as Korean NVOCCs and freight forwarders; (2) denied NVOCCs and freight forwarders owned and operated by non-Korean nationals equal and effective access to cargo moving from Korea to the U.S.; (3) discriminated between NVOCCs and freight forwarders owned and operated by non-Korean and Korean nationals; and (4) were otherwise unfavorable to shipping in the U.S. foreign trade. The Final Rule for the most part adopted the Proposed Rule published in July 1992. It provided for the suspension of tariffs for certain Korean-owned (non-U.S. citizen) NVOCCs, the suspension of licenses for certain Korean-owned (non-U.S. citizen) freight forwarders, and the prohibition of payment of freight forwarder compensation or brokerage to freight forwarders, consolidators, cargo brokers, or other transportation intermediaries who provide services to facilitate arrangements for export shipments from

Korea to the U.S.

In bilateral shipping talks between the Governments of the United States and the Republic of Korea ("ROK") held August 5-6, 1992, the ROK agreed to take all necessary steps to eliminate nationality-based restrictions so as to allow U.S. forwarding and consolidating companies to conduct direct business activities in Korea by June 30, 1993. In recognition of these commitments, the Commission delayed the effectiveness of the sanctions established in the Final Rule until September 1, 1993, and provided for further comments to be filed within 30 days of the date set by the ROK for completion of action to fulfill its commitments. In addition, the Commission indicated that it would delay the information-gathering activities it had announced in the Proposed Rule. These included review of its freight forwarder files to identify those freight forwarders that were majority Korean owned or controlled, and the issuance of separate orders directing NVOCCs to provide information which would allow the Commission to identify those that are more than 50 percent Korean owned or controlled. Comments on conditions existing in the Trade and continued need for implementation of the Final Rule are due July 31, 1993. On August 16, 1993, the Commission amended its Final Rule to postpone the effective date of the sanctions to November 1, 1993.

Based on information provided by interested parties and Korean officials that Korea's nationality-based restrictions on freight forwarders and consolidators were in fact eliminated effective June 30, 1993, the Commission rescinded its Final Rule on September 28, 1993.

FEDERAL MARITIME COMMISSION

FY 94 Appropriation	\$18,900,000
FY 95 President's Budget	\$18,700,000

FY 95 Most Critical Unmet Needs @ \$18,700,000

<u>3 FTEs @ \$66,000 Each</u> (Including benefits)	\$198,000
[To fully fund our authorized FTE level of 208 -- since the \$18,700,000 level only permits funding of 205 FTEs -- in order to bolster our enforcement program]	
<u>Funding for Career Ladder Promotions</u> (Including benefits)	101,000
<u>Travel</u> [To assist in investigative efforts]	50,000
<u>Training</u> [For performance improvement and investigative techniques]	25,000
<u>Furniture & Equipment</u> (Including ADP Equipment) [To replace out-dated inventory]	<u>35,000</u>
TOTAL	\$409,000
FY 95 President's Budget	<u>\$18,700,000</u>
PROPOSED LEVEL TO ACCOMMODATE UNMET NEEDS	\$19,100,000

QUESTIONS FOR THE STATE MARITIME ACADEMIES
SUBMITTED FOR THE HEARING RECORD
MARCH 9, 1994

1. In your statement, you expressed opposition to the absence of simulator funding in MarAd's budget request. Could you please provide the Subcommittee with each academy's strategic plan for meeting future simulator needs?

STATE MARITIME ACADEMY TRAINING SIMULATORS

PROBLEM - The State Maritime Academies require simulators to meet the new training standards under the International Maritime Organization Standards for Training, Certification and Watchkeeping and also to respond to the new National Transportation Policy. The lack of simulators directly impacts on our Nation's Maritime Education and Training, the most urgent need being for bridge simulators followed by tanker liquid loading simulators to support the Oil Pollution Act of 1990. This position has been supported by the Maritime Administration.

REQUIREMENT FOR SIMULATORS IN MARITIME TRAINING

All maritime nations have recognized in recent years that old training and qualification methods are becoming obsolete with the increased size and complexity of modern commercial ships. In the United States both the U.S. Coast Guard and the Maritime Administration are placing increased emphasis on more formal, structured training with a particular emphasis on the use of simulation in training and assessing the skills of prospective and serving licensed Merchant Marine officers.

Under the sponsorship of MarAd, a special conference was convened in 1993 to address the integration of simulators into the maritime academies' programs and to make recommendations on standards for bridge/ship handling simulators in particular to meet full mission bridge criteria and to qualify for sea time equivalency. A special working group was convened to address these issues on a continuing basis. There was unanimous agreement that simulators are a critical element in any training program and are, in many ways, superior to traditional instruction methods for addressing the dynamics of shiphandling and bridge team/resource management.

In their November 1993 study ("Licensing -- 2000 and Beyond"), the Coast Guard makes a strong case for the revision of traditional standards of qualification for licensing and upgrading merchant marine officer licenses, deemphasizing the importance of just the numbers of days at sea and placing greater emphasis upon realistic training and experience in the more challenging situations mariners face when they are not alone on the open ocean. The study specifically addresses the value of simulator training and its ability to expose students and

officers seeking license renewals or upgrades to challenging situations which test the skills required to assure safe navigation under all conditions. It is anticipated that the day is near when deck officers seeking licenses or renewals will have to document a minimum number of hours of recent simulator training as well as the traditional yardstick of specified sea time. Radar Simulator Training is already required for the Radar Observer endorsement on deck officer licenses and Liquid Cargo Simulators are required now to meet the requirements of the Oil Pollution Act of 1990. It is also anticipated that similar criteria will be developed for engineering officers.

The potential risk posed to property, lives and the environment when officers navigate and operate the machinery of today's large and complex ships requires that they be trained to handle the many situations which can arise and which require immediate and correct action. Early and continuing training in those circumstances through realistic simulation may be the only practice they have before being confronted with the real situation. The aviation industry recognized this long ago and has used simulation effectively to prepare pilots and cockpit crews to handle every type of equipment and emergency situation before they ever carry passengers. The maritime industry and its training institutions can and should do no less. The investment in simulation equipment and training is insignificant compared to the catastrophic damage of another Exxon Valdez or Stockholm-Andrea Doria.

As noted in enclosure (1) the Maritime Administration, on 27 March 1991, proposed and believed it to be appropriate, to provide \$10 million to assist the State Maritime Academies in purchasing simulator hardware, the initial requirements being bridge and liquid cargo simulators.

ALTERNATE SOURCES AND USES OF SIMULATORS

The State Maritime Academies simply can not use the union or other simulators in the nation - the major problems being time, distance and money. Note there are no alternate simulators at all on the West Coast for California Maritime Academy or Gulf Coast for Texas Maritime. Maine Maritime Cadets would have to travel a great distance.

As can be seen from MarAd's 1992 point paper (Enclosure 2), it is strongly suggested that the State Maritime Academies participate in industry wide upgrade training through the use of Simulator Assisted Continuing Education. The state academies are in agreement and support such an objective. Unfortunately, the number of existing simulators is totally inadequate to even come close to meeting this goal. If each actively sailing mate required 40 hours of simulated training every five years to renew his license (not an unreasonable requirement), there is no way

our nation's supply of simulators could even begin to satisfy this educational requirement. In most situations, only three licensed mates can be trained at any one time. Therefore, a single simulator operating 24 hours a day, 7 days a week, 52 weeks of the year could train a maximum of 655 mates in one year. Considering there are 8,500 actively sailing mates, it can be readily seen the number of simulators required far exceeds the number in existence. The problem doubles if, as previously proposed by the Maritime Administration, all mates were to receive simulator training at the midpoint of their license renewal cycle (every 2.5 years).

This also does not address the large number of inactive mates who need to renew their licenses for national defense purposes and who would be even more in need of simulator training. Also not mentioned are the requirements for such training for cadets/midshipmen to obtain their original licenses under the stipulations mandated by IMO-STCW. Lastly, the excessive employment of simulators delineated above is totally unrealistic and could never be realized or maintained under anything less than a war time situation. As can be readily seen, the number of existing bridge simulators is wholly inadequate to even begin to meet the nation's maritime training need.

Of course, union schools require simulators to help satisfy training/retraining needs, but so do the maritime academies. This is true not only for Cadet/Midshipmen training but also to assist non-union companies, tug and barge organizations, inland waterways personnel, etc. who will also need such training.

Because the simulators must be part of the classroom experience, it would be impossible to schedule the transportation and allot the time for such schools as New York to go to Kings Point day in and day out. In addition, the cost would be prohibitive. It costs between \$600-\$900 an hour to use their facility. That kind of money is simply not available.

FUTURE NEEDS AND STRATEGY

Over the last several years each academy has acquired many and varied simulators that meet the special needs of the individual schools. This has been accomplished through private and corporate fund-raising in addition to governmental assistance. Each academy's funding strategy for simulator procurement is dependent upon many varied sources of monies, namely, fund-raising in the private and corporate sectors and from foundations, in addition to governmental assistance. Some academies, dependent on their location, corporate involvements, etc., are more successful than others. There is no concrete formula for a particular strategy but every academy is working hard to raise funds for simulators. Integral to all plans has been "promised" governmental assistance.

Listed below are the individual academy simulator needs projected over the next few years:

	<u>Simulator</u>	<u>Desired Purchase Year</u>
<u>Maine</u> -	Liquid Cargo Handling Simulator	1995
	PC based Diesel Simulator	1995
	Refrigeration Simulator	1995
	Power Plant Simulator programs	1995
<u>New York</u> -	Liquid Cargo Handling Simulator Work Stations	1994
	Bridge Simulator (2nd own ship)	1995
	Radar Simulator upgrade	1995
<u>Massachusetts</u> -	Steam Plant Simulator Software	1994
	Electrical Power Generator Software	1995
	Radionavigation Simulator	1996
	Diesel Simulator Work Stations	1996
	HVAC Controls Simulator	1996
	Steam Plant Simulator	1997
	GMDSS Simulator	1997
	Pressure/Temperature/Level Instrument Control Simulator	1998
	Replacement Bridge Simulator	1999

<u>California</u> -	GMDSS Simulator	1994
	Bridge Simulator	1995
	Oil Spill Response Simulator	1995
	Steam Plant Simulator	1996
<u>Texas</u> -	Bridge Simulator	1994
	Liquid Cargo Handling Simulator	1995
<u>Great Lakes Region</u> -	Engine Systems Simulator	1994
	Liquid Cargo Loading Simulator	1995
	Self-Unloading System Simulator (software)	1995
	Ship Handling Simulator Upgrades (port & ship software)	1996
	Radar Simulator Upgrades	1996
	Bulk Cargo Loading and Unloading Simulator	1997
	Rules of the Road Trainer	1997
	Oil Spill Simulator	1998

Each individual academy has been and will continue to raise simulator funds privately from industry, alumni and foundation resources. Recognizing the depressed condition of the maritime industry this is a slow, and sometimes futile, process. The most effective method to date has been to combine private fund-raising with simulator funds appropriated by the Congress.

RECOMMENDATION

Continue funding at \$1.2 million/year up to the \$10 million proposed by the Maritime Administration on 27 March 1991 (see enclosure 2). To date \$3.5 million has been appropriated leaving a balance of \$6.4 million.

2. In your opinion has the MARTP Coast Guard Reserve Program been a success?

Yes, the Coast Guard reserve program has opened up another prospective career opportunity for our cadets. The cadets participating in the Maritime Academy Reserve Training Program (MARTP) are exposed to all USCG missions, receive marine safety education to expand and complement our curriculums, receive compensation to help pay for academy tuition/expenses, and receive reserve commissions upon graduation.

An added benefit to the academies has been the greater awareness displayed by the entire Corps of Cadets to the missions of the Coast Guard and its responsibility for marine safety. We believe that our graduates will use this information once they begin working in the maritime industry.

Currently there are 43 cadets participating in the MARTP program. The breakdown by academy follows:

	<u>FY 1992</u>	<u>FY 1993</u>
California	2	4
Maine	6	3
Massachusetts	3	4
New York	5	5
Texas	6	5

The Coast Guard also benefits from MARTP. There has not been a program available until the establishment of MARTP where successful completion of a training curriculum has led to, at a minimum, a commission as an Ensign in the Coast Guard Reserve. The cadets' merchant marine skill and experience along with MARTP participation will also significantly enhance their potential for selection to the MARGRAD (Maritime Graduate) or other direct commission program. Those cadets selected for active duty will enter the service as experienced junior officers.

Maritime Administration
27 March 1991

Question: How much of the cost (\$10M) for the new simulator equipment for student training will be shared by the five deep water schools? Why should we fund this, rather than the schools? Why not opt for State School support for shipsharing? How are we going to meet Congressional restrictions on shipsharing?

Answer: 1. MARAD proposes to pay up to \$10M for simulator hardware for the six state maritime schools. The budget justification erroneously delineated a five school program. The schools will provide the computer facility, on-going maintenance, professional training and faculty/instructors to run the simulator. In addition, hardware costs over \$10M will be borne by the schools.

2. This proposal is in part being undertaken in response to the National Transportation Policy. One element states "...ship captains, locomotive engineers and other personnel must receive adequate training to operate vehicles and systems safely..." The six state maritime academies are ideal locations for the simulation equipment because they are geographically dispersed. Training can be provided to the industry under continuing education programs on each coast. Using the simulators to provide training for cadets will bring them up to the standards of the 1990's and beyond. Simulator training is already a vital part of the training at the U.S. Merchant Marine Academy. This proposal will put all officer training on the same level and provide the same safety related skills. MARAD's concern and emphasis is on SAFETY; matching new officers to the new technology in ships and improving the skills of officers already in the industry.

3. MARAD believes that modern simulation training is an absolute requirement for officer training for the merchant marine. It is a key component of maritime training internationally and is used extensively in training in other modes. MARAD proposes to provide simulation equipment to the state maritime academies to use for training actively sailing merchant marine officers as well as for use in cadet training.

4. The primary focus of the simulator training will be for qualification and recertification of deck officers using bridge and cargo loading simulators. The greatest cause of marine accidents is human error. There is an urgent safety-related need to improve the quality of training of merchant marine officers in

(Enclosure 1)

ship handling, piloting navigation and liquid cargo handling. Assisting the state schools in placing modern simulators in operation at their facilities is an appropriate response to this safety problem. Skills involved with emergency ship handling operations can not be practically and safely taught anywhere but at a simulator facility.

5. The schools are not to fund the acquisition of simulators by themselves. Individually and collectively they face the same severe downward pressures on budgets as any other state (or Federal) government activity. The state budgets are focusing only on undergraduate training requirements. MARAD is focusing on all training requirements -- industry as well as cadet training. Therefore, MARAD believes it is appropriate to fund the acquisition of simulation equipment. The Federal government will benefit from a one-time-only acquisition cost since the states will pick up the annual maintenance costs as well as provide faculty/instructors to run the facility. Funds to purchase simulator equipment will only be given to the schools on the condition that they provide continuing education courses to licensed officers in the industry.

(Enclosure 1)

Maritime Administration
2 October 1990

ISSUE: Simulators

DISCUSSION:

1. In future budget requests MARAD plans to propose a program to support the acquisition of appropriate marine training simulation equipment for the State maritime academies. A pool of funds may be created where MARAD could contribute to the purchase of marine training simulators based on formal proposals submitted by each academy. The academies will be expected to provide the computer facility, on-going maintenance, professional training and faculty/instructors to operate the simulators.
2. The simulators will be used to train licensed officers in continuing education programs as well as cadets at the academies. Qualifications and requalification of deck officers using bridge simulators and cargo loading simulators will be the primary focus under this program.
3. The bridge simulators procured by each academy will be required to meet minimum MARAD specification standards. Liquid cargo loading discharging simulation equipment, radar and diesel engine simulators will be included in the mix, funds permitting.
4. The Coast Guard has approved one day of bridge simulator training as creditable for six days of required sea service. Simulator training is the norm in most of the developed nations' maritime training programs and has been the norm in aviation training in the U.S.
5. MARAD is focusing on all training requirements -- industry as well as cadet training. MARAD believes that modern simulation training is an absolute requirement for officer training for the merchant marine, and for retraining and skill upgrading for active mariners. The equipment would also be useful as a core element for new program efforts, for example the likely training rules for commercial fishing vessel operators and crewmen.

(Enclosure 2)

ADDITIONAL QUESTIONS FOR STATE MARITIME ACADEMIES

1. What type of simulators do each of the academies have and what types of simulators do each of the academies plan to purchase?

- a. Types of simulators at each academy

Maine

- Bridge Simulator
- Power Plant Simulator
- Diesel Simulator
- Steam Plant Simulator

New York

- Bridge Simulator (one own ship)
- Two Diesel Simulators
- Two Radar Simulators (ARPA)
- GMDSS Simulator
- Electronic Navigation Simulator
- Liquid Cargo Handling Simulator (instructor station only)

Texas

- Shiphandling Simulator (small version similar to Great Lakes)
- Radar Simulator
- Diesel Simulator
- GMDSS Simulator

California

- Diesel Simulator
- Tanker Loading Simulator
- Radar Simulator

Massachusetts

- Bridge Simulator
- Two Radar Simulators (ARPA)
- Fisheries Simulator
- Oil Spill Simulator
- Cargo Handling Simulator
- Tanker Loading Simulator
- Propulsion Simulator

Great Lakes Region

- Shiphandling Simulator (small version)
- Radar Simulator

1B. Plans for simulator purchaseSimulator

<u>Maine</u> -	Liquid Cargo Handling Simulator
	PC based Diesel Simulator
	Refrigeration Simulator
	Power Plant Simulator programs
<u>New York</u> -	Liquid Cargo Handling Simulator
	Work Stations
	Bridge Simulator (2nd own ship)
	Radar Simulator upgrade
<u>Texas</u> -	Bridge Simulator (full bridge)
	Liquid Cargo Handling Simulator
<u>California</u> -	Bridge Simulator
	GMDSS Simulator
	Oil Spill Response Simulator
	Steam Plant Simulator

Massachusetts - Radionavigation Simulator
Bridge Simulator
GMDSS Simulator
Voyage Management System Simulator
Propulsion Plant Simulator
(Software)

Great Lakes Region - Engine Systems Simulator
Liquid Cargo Handling Simulator
Self-Unloading System Simulator
(software)
Ship Handling Simulator Upgrades
(port & ship software)
Radar Simulator Upgrades
Bulk Cargo Loading and Unloading
Simulator
Rules of the Road Trainer
Oil Spill Simulator

2. What is the acquisition schedule for these simulators at each of the academies if Federal support is continued at the same amount as over the past 3 years?

Maine

- 1995 - Liquid Cargo Handling Simulator
- 1996 - PC Diesel Simulator, Renovations of Diesel Simulator, Refrigeration Simulator, Programs for Power Plant Simulator

New York

- 1994 - Liquid Cargo Handling Simulator Work Stations
- 1995 - Bridge Simulator (second own ship)
- 1995 - Radar Simulator upgrade

Texas

- 1995 - Bridge Simulator
- 1996 - Liquid Cargo Handling Simulator

California

- 1994 - GMDSS Simulator
- 1995 - Bridge Simulator
- 1995 - Oil Spill Response Simulator
- 1996 - Steam Propulsion Simulator

Massachusetts

- 1994-1997 - Radionavigation Simulator
- Steam Propulsion Simulator
- GMDSS Simulator
- 1994-1999 - Voyage Management System Simulator
- Bridge Simulator

Great Lakes Region

- 1994 - Engine Systems Simulator
- 1995 - Liquid Cargo Loading Simulator

- 1995 - Self-Unloading System Simulator (software)
- 1996 - Shiphandling Simulator Upgrades (port & ship software)
- 1996 - Radar Simulator Upgrades
- 1997 - Bulk Cargo Loading Unloading Simulator
- 1997 - Rules of the Road Trainer
- 1998 - Oil Spill Simulator

3. What is the projected total cost of simulator acquisition and installation for each academy?

Maine - \$ 985,000

New York - \$1,650,000

Texas - \$2,300,000

California - \$6,500,000

Massachusetts - \$3,000,000

Great Lakes - \$1,890,000

Cost of new buildings (physical plant) not included.

4. Would it be more cost effective if each academy purchased the same simulator for their institution to enable a quantity based discount from the simulator and software manufacturers?

Yes, however, the answer must be clarified. Each academy has different sources of funding and periods when funds can or would be available. Government funding is a constant unknown; for example, simulator funds for fiscal year 1994 have not yet been distributed making planning for the fiscal year extremely difficult. Also, each academy has unique programs and different needs, i.e., Texas and Great Lakes are smaller than and have different requests than the larger academies. Purchasing coordination, with so many variables in funding, of such a venture would be next to impossible.

5. Please briefly describe the training simulator curriculum at each academy.

Maine

A. Navigation & Shiphandling - Fully integrated into Nautical Science curriculum. Navigation, radar, ARPA, watch keeping, and bridge management are supported by the simulator.

B. Power Plant - Groundbreaking curriculum developed with the Electric Power Research Institute of Palo Alto, CA.

C. Diesel Simulator - Critical element in transition from classroom theory to marine diesel operations. Used in training professional mariners for conversion from steam to diesel.

New York

All simulators, both deck and engine, are integrated into the undergraduate program from the freshman to the senior year. In addition, the Continuing Education program for the maritime industry utilizes all simulators in varying degrees. Undergraduates are exposed to simulator training through a number of their license courses commencing with more simplistic training on an individual basis and culminating with team training (full watchstanding).

Texas

Simulators are integrated into both navigation and ship operations courses.

California

The undergraduate curriculum and extended education program include training with specific courses utilizing the tanker, diesel and radar simulators.

Massachusetts

Response not available.

Great Lakes

The shiphandling simulator was only acquired last November and is presently being used in shiphandling training and familiarization (various size and type vessels under varying conditions); pilotage training in the St. Mary's River, the first Great Lakes region water body modeled for the system software; rules of the road orientation; and bridge team/resource management training.

6. How many hours per month are each of your simulators used for training purposes by cadets at each academy?

Maine

Navigation and Shiphandling Simulators -	140 hours per month
Power Plant Simulator -	60 hours per month
Diesel Simulator -	50 hours per month
Steam Plant Simulator -	Operational, Sept. 1994

New York

Navigation, Radar and Ship-handling Simulators -	160 hours per month
Diesel Simulators -	100 hours per month

Texas

Navigation and Ship Operations Simulators -	20 hours per month
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California

Tanker Simulator -	36 hours per month
Diesel Simulator -	20 hours per month
Radar Simulator -	350 hours per month

Massachusetts

All Simulators -	100 hours per month
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Great Lakes Region

Bridge and Radar Simulators -	80 hours per month
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7. Are your simulators used for continuing education and training programs for mariners other than cadets? If so, how many hours per month are simulators used for these programs at each of the academies?

Maine

- Yes
- Currently 20 hours per month with plans to increase.

New York

- Yes
- Currently 175 hours per month with plans to increase.

Texas

- Yes
- 192 hours per month.

California

- Yes
- 380 hours per month, 350 of which are dedicated to radar simulation.

Massachusetts

- Yes
- 100 hours per month.

Great Lakes Region

- Yes
- Currently 20 hours per month with plans to increase.

8. Do any of the academies have plans to increase the number of hours per month that simulators are used by cadets and nonstudents? If so, please describe these plans.

Maine

- Yes. The increased sea time requirements and Coast Guard approval of simulator time will lead us to greater use of simulation in the coming years. Also, we are expanding our Ocean Institute short courses for professionals from industry.

New York

- Yes. Future use of simulators in the core curriculum will be increased taking into account the increased sea time and anticipated simulation requirements. Likewise it is anticipated there will be an increase due to continuing education demands.

Texas

- Yes. Plans are to double the use of simulators in the near future.

California

- Yes. It is anticipated that there will be an increase of 20% usage primarily in the Continuing Education Department.

Massachusetts

- Yes. An overall increase of 33% is anticipated.

Great Lakes Region

- Yes. The number of hours per month that the simulators are used will be increased as they are integrated into the curriculums and as those additional simulators listed in the acquisition plan are purchased. Classes in shiphandling, pilotage, radar operations rules of the road, steam engineering, diesel engineering, auxiliary systems, electrical systems, and cargo loading (both dry bulk and liquid) will include simulator time as part of the course syllabus.

9. What are the maximum number of hours per month that simulators will be used by cadets and nonstudents at each of the academies?

<u>Maine</u> -	350 hours per month
<u>New York</u> -	500 hours per month
<u>Texas</u> -	256 hours per month
<u>California</u> -	1192 hours per month
<u>Massachusetts</u> -	300 hours per month
<u>Great Lakes Region</u> -	240 hours per month



